CHAPTER - II

INDIAN ECONOMIC POLICY : CHANGE AND CONTINUITY

For understanding politics of liberalisation of Indian economy, it is necessary to examine the Indian economic policy from historical perspective. Perhaps, this enables us to analyse change and continuity of the Indian economic policy and it also contributes to understand the situational compulsions for introducing liberalisation of Indian economy.

Indian Economic Policy During Nehru Era

India suffered under British imperialism for more than two centuries. Soon after independence, India faced a number of problems. A major problem was that of migrants from Pakistan to India which created one of the most challenging refugee problems in the world history, as million of Hindus from areas now forming the part of Pakistan migrated to India as well as many Muslims from India crossed over to Pakistan.\(^1\) India won freedom at a terrible price. Partition hurled ten million wretched people on to the roads, the railways and the unharvested fields of the Punjab in

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the greatest migration in human history.\textsuperscript{2} Further, the bifurcation of the sub-continent into India and Pakistan has its adverse effect on the Indian economy in as much as its fertile lands, in the provinces of Punjab and Sind which went over to Pakistan happened to be the best wheat and cotton growing areas as well produced several other cash crops.\textsuperscript{3}

Another major problem was of the unity of India. Many princely States were in a hurry to declare their independence but credit of keeping India as a nation with federal principle goes to Sardar Vallabhbhai Patel, the iron man of India. Amidst all these problems, India has to formulate economic policy of its own. At independence in 1947, India was an extremely poor country with an annual per capita income of only $.50 for its 350 million people. Life expectancy was 32 years and literacy rate was 17 per cent. National savings rate was around 10 per cent. Agriculture accounted for 60 per cent GDP and 80 per cent of employment. Per capita food production and per capita income had been declining continuously for nearly the prior fifty years.\textsuperscript{4}

Prime Minister Jawaharlal Nehru was very much influenced by socialistic doctrine and he believed in identifying remedial

\textsuperscript{2} Larry Collins and Dominique Lappierre, \textit{Freedom at Mid Night}, Tarang Paperbacks, 1985, p. 121.

\textsuperscript{3} V. S. Mahajan, Supra No. 1, p.3.

\textsuperscript{4} http://ww.deeshaa.org/archives/2003/12/19/index.html # 000277
measures to India’s problems on the basis of socialism. He writes, “I am convinced that the only key to the solution of the world’s problems lies in ‘socialism’ and when I use this word, I do so not in a vague humanitarian way but in the scientific economic sense socialism is, however, something even more than an economic doctrine. It is a philosophy of life and as such also it appeals to me”.5 “I see no way of ending poverty, the vast unemployment, the degradation and the subjection of the Indian people except through socialism”6 and he continues “Socialism is for me not merely an economic doctrine which I favour. It is a vital need which I had all my head and heart”.7 According to Nehru “If felt to normal courses under the capital system the poor will get poorer and handful of rich, richer”.8

As the Prime Minister of India while formulating the economic policy, Nehru had two options. One was the liberal capitalism of the west and the other centrally planned command of Soviet Union.9 Nehru neither directly followed the capitalist policy of the west, nor the centrally planned economy of Soviet

5 R.L.Malhotra (ed.), Socialism : The Only Way, Nehru : An Anthology for Young Readers, NCERT, Delhi, 1984, pp. 77-78.
7 Ibid.
Union. He made a third way called 'mixed economy' with democratic planning as the technique and socialistic pattern as the objective. His goal was to contract socialistic economic through democratic means. What Nehru envisioned was in essence democratic socialism and he was quite aware of the challenge of combining true democracy with the planning and reduction of inequalities among citizens.

As is well known, the system that was sought to be established under the leadership of Pandit Nehru which the market missionaries call the 'Nehru Doctrine' was not socialism but a variant, in which private ownership of property and private enterprises are to be limited but not excluded. During Nehru's period public sectors gained prominence over private sectors. But some leaders within the Congress party were not in favour of socialist oriented policies of the Congress. The conservatives, led by Sardar Patel, managed to rule that there was no place for socialist party within the Congress party, which made the socialists like Acharya Narendra Dev, Jayaprakash Narayan and Ram Manohar Lohia to exit from the party in 1948. Nehru was reported to have said about the force of rampant factionalism, "I

10 Ibid.
12 Ibid.
reported to have said about the force of rampant factionalism, "I have felt recently as if I was in a den of wild animals." According to Mark Tully, there would have been substantial differences in India’s developments if Patel had lived longer than he did. The socialist radicalism which was very active in our country after independence, would have had a muted expression.

The trend towards democratic socialism became clear after the passing away of Patel that enabled Nehru to weed out the hold of the Patelites like Purushottam Das Tandon from the organization and K.M.Munshi from the government.

The Five Year Plan (1951-56) developed on the doctrine of Nehru, which identified economic growth, employment, self-reliance and social justice as the main objectives of the economic planning was a considerable success. It was successful in achieving rehabilitation of refugees, rapid agricultural development so as to achieve food self-sufficiency to control inflation. The First Plan attempted a process of all-round balanced development.

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14 Ibid., p. 428.
15 Mark Tully and Zahir Massani (BBC), From Raj to Rajiv: Forty Years of India’s Independence, Universal Book Stall, New Delhi, 1988, pp. 22-23.
17 Ruddar Dutt and KPM Sundaram, Indian Economy, S. Chand and Co. Ltd., New Delhi, 1999, p. 245.
18 Ibid.
resolution adopted in the Avadhi session states “planning should take place with a view to the establishment of socialistic pattern of society, where the principal means of production is progressively speeded up and there is an equal distribution of national wealth. The public sector must play greater part, more particularly in the establishment of industries. The industrial policy resolution of 1956 replaced the shift towards the socialistic pattern.”

The success of the Five Year Plan elevated the confidence of Nehru in economic planning. Nehru sent a statistician P.C. Mahalanobis to Soviet Russia to study critically the planning experience of that country. Prasant Chandra Mahalanobis was Honorary Statistical Adviser to the Government of India. During 1950s he became central focus of policy making and began to dominate the planning process. His biggest contribution was the draft plan frame for the Second Five Year Plan, possibly the single most important document in the 1950s and possibly one of the most important documents in the world at that time. In it he put into practice the socialist ideas of investment in a large sector, with emphasis on heavy industry and a focus on import

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The Second Five Year Plan (1956-61) better known as Nehru-Mahalanobis model clearly reflected the socialistic ideas of economy. The Nehru-Mahalanobis model was a magnificent one but in practice it was a failure due to the constraints. By 1957-58 most of the reserve was drained and a larger number of industrial projects remained half complete. Further, the economy experienced BOP problems which took on crisis proportions on more than one occasion.

In the early 1960s we had a terrible food crisis which resulted in massive food imports. Besides, the Sino-Indian war of 1962 and Indo-Pakistan war of 1965 adversely affected Indian economy. In order to confront these issues India was forced to approach the International Funding Agencies like IMF and World Bank. They insisted on a policy reversal. The main requirement was adopting a pro-private sector policy permitting multinational corporations (mainly consumer goods oriented) in the Indian economy. During Nehru era we were dependent on the west for foreign capital. Public Sector dependence on foreign capital is shown in Table 2.1.

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21 Ibid., p. 89.
22 V. Mathew Kurien, supra, no. 9, p. 12.
24 V. Mathew Kurien, supra, no. 9, p. 12.
### TABLE – 2.1
India’s Dependence on Foreign Capital for Public Sector (Rs. in Crore)

<table>
<thead>
<tr>
<th>Plan period</th>
<th>Total investment Rs.</th>
<th>Foreign capital Rs.</th>
<th>Foreign capital utilized as percentage of total investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>I Plan (1951-56)</td>
<td>1560</td>
<td>196</td>
<td>12.60</td>
</tr>
<tr>
<td>II Plan (1956-61)</td>
<td>3650</td>
<td>1352</td>
<td>37.00</td>
</tr>
<tr>
<td>III Plan (1961-66)</td>
<td>6300</td>
<td>2479</td>
<td>39.00</td>
</tr>
</tbody>
</table>


**Indian Economic Policy During Post-Nehru Era**

The death of Nehru in 1964 did not mean the end of his policies of socialist ideas. Even after his death, they assumed greater importance and dominated the formulation of economic policy.

After the death of Nehru, Lal Bahadur Shastri assumed the office of the Prime Minister, but his period was short lived. He died at Tashkent in January 1966. Thereafter, Indira Gandhi became the Prime Minister of India.

When Indira Gandhi assumed the office of Prime Minister in 1966, there was difference of opinion within the Congress party over the economic policy to be followed. Leaders like
Morarji Desai and others were not in favour of socialistic policies.

In 1967 General Elections, the position of the Congress considerably declined and in a few northern states Congress party was not able to form the government. Performance of the Congress party in 1952, 1957, 1962 and 1967 elections is shown in Table 2.2.

**TABLE – 2.2**


<table>
<thead>
<tr>
<th>General Election</th>
<th>1952</th>
<th>1957</th>
<th>1962</th>
<th>1967</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total seats</td>
<td>489</td>
<td>494</td>
<td>494</td>
<td>520</td>
</tr>
<tr>
<td>Contested</td>
<td>479</td>
<td>482</td>
<td>491</td>
<td>515</td>
</tr>
<tr>
<td>Uncontested</td>
<td>10</td>
<td>12</td>
<td>03</td>
<td>05</td>
</tr>
<tr>
<td>Congress won</td>
<td>364</td>
<td>371</td>
<td>461</td>
<td>283</td>
</tr>
<tr>
<td>Percentage of votes</td>
<td>45.00</td>
<td>47.80</td>
<td>44.70</td>
<td>40.80</td>
</tr>
</tbody>
</table>


The All India Congress Committee (AICC) felt that this was all due to slow and steady progress towards the goal of socialism. The committee prepared a ten-point programme, social control over banks, nationalization of general insurance, abolition of privy purses and other privileges of former rulers and fulfill the basic requirements of all sections of the people in time-bound
programme.\textsuperscript{25} Indira Gandhi attempted to bring about basic structure in the economic policy.

To fulfill the social objectives major commercial banks were brought under public sector in 1969. Before nationalization a number of bank branches as a little over 8,000 and after nationalization it was more than 41,000.\textsuperscript{26} But then Finance Minister Morarji Desai was against it and it made him to resign from the cabinet in 1969. After the nationalization of major commercial banks in the country, there marked expansion in their business both with regard to the bank deposits as well as bank credits of the scheduled commercial bank credits. In March 1969, the total deposits of the scheduled commercial banks stood at Rs.4,384 crore which increased to Rs.5,609 crore in 1971.\textsuperscript{27}

Differences between Morarji Desai and Indira Gandhi intensified the intra-party conflict at the AICC meeting held in Bangalore in January 1969. The difference within the party leadership between Indira Gandhi and the old Congressmen came to a head and ultimately resulted in the split of the party in December 1969.\textsuperscript{28} Though the split was based on ideological

\textsuperscript{25} Sudhir Kumar Singh, Refinalisation of Indian Politics, Third Concept, October-November 1999, p. 29.
\textsuperscript{26} Foreword March of Indian Economy, An AICC (I) Publications, New Delhi, pp. 3-4.
\textsuperscript{27} B.N.Ahuja, Latest Essays, Goodwill Publishing House, New Delhi, 1995, p. 223.
\textsuperscript{28} S.S.Patagundi, Political Parties, Party System and Foreign Policy of India, Deep and Deep Publications, New Delhi, 1989, p. 27.
difference, it was largely motivated by personal ambitions, factionalism and sense frustration. The Congress, however, was divided into Congress (R) and Congress (O). After the split of the Congress party, the Congress (R) under the leadership of Indira Gandhi became a minority government. However, Indira Gandhi continued in power with the support of the CPI.

Indira Gandhi in the mid-term poll of 1971 adopted a political posture that emphasized the alleviation of poverty (Garibi Hatao) as key theme. This populist strategy paid handsome political dividends, generating large electoral for her. The Congress won 348 seats out of 521. In the early seventies overall macro-economic and fiscal policy framework was conservative and stable. But the failure of monsoon in 1972 led to the rise of prices in 1973. The Gujarat agitation and J.P. movement in 1974 tended to decline the popularity of the Congress. When the opposition itself became a strident in 1975, she imposed National Emergency for two years (1975-77) limiting democratic practices and bringing India’s democracy to the

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brink.\textsuperscript{33} All this weakened the position of Indira Gandhi, and this led to massive micro-economic distortions. The economy was inefficient and grew at slow pace.\textsuperscript{34} The build up of stresses in a micro-economic balance meant a persistent resource gap in public sector GDP and it led economy towards wrong path.\textsuperscript{35}

In the 1977 General Elections, the Congress was defeated. Even Indira Gandhi herself lost to Raj Narayan of Janata Party in Rai Bareli constituency. The fact, that she was voted out of the power following the emergency, only confirmed the efficiency of Indian democracy. Those who tamper with the basic system will lose popular support.\textsuperscript{36} The Janata Party under the leadership of Morarji Desai formed the government. But due to factional politics of Janata Party under the leadership of Morarji Desai could not last long. Choudhri Charan Singh became next Prime Minister of India but he failed to face the parliament. So the Charan Singh government resigned in August 1979. No political party was in a position to form the government. Ultimately, this crisis was resolved by taking the decision to hold mid-term poll in January 1980.\textsuperscript{37} Nothing much of note occurred during these

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{31} Hans Raj, \textit{Indian Political System}, Surjeet Publishers, Delhi. 1990. p. 115.
\item \textsuperscript{32} Vijay Shukla, supra, no., 23, p. 31.
\item \textsuperscript{33} Atul Kohli (ed.), \textit{The Success of India’s Democracy}, Cambridge University Press, New Delhi, 2002. p. 8.
\item \textsuperscript{34} Vijay Shukla, supra, no., 23, p. 31.
\item \textsuperscript{35} Asian Survey, 33(2), February 1993, p. 120.
\item \textsuperscript{36} Atul Kohli (ed.), supra, no., 33, p. 8.
\item \textsuperscript{37} Sudhir Kumar Singh, Supra No 25, pp. 35-36.
\end{itemize}
\end{footnotesize}
two years' rule of Janata government except imports were liberalized to some extent in 1976-77 and 1977-78, but continued the policy of almost total protection of Indian manufacturing prevented any upsurge.38

The three decades from 1950-51 to 1980-81 saw economic growth average close to 3.5 per cent per year. What is worse is that during this long 30 year period, growth of per capita GDP averaged hardly 1.5 per cent a year. In other words, average living standards increased painfully slowly in India during these three decades.39 The insulatory of the economy can be gauged from the fact that India's share in world exports came down from 1.85 per cent to 0.42 per cent between 1950 and 1980.40

The average growth of real GDP from 1950 to 1980 is shown in Table 2.3.

TABLE – 2.3
Average Growth of Real GDP from 1950 to 1980 (in percentage)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Agricultural and allied</td>
<td>03.10</td>
<td>02.50</td>
<td>01.80</td>
</tr>
<tr>
<td>2. Industry</td>
<td>06.30</td>
<td>05.50</td>
<td>04.10</td>
</tr>
<tr>
<td>3. Services</td>
<td>04.30</td>
<td>04.80</td>
<td>04.40</td>
</tr>
<tr>
<td>4. GDP (Factor Cost)</td>
<td>03.90</td>
<td>03.70</td>
<td>03.20</td>
</tr>
<tr>
<td>5. Per capita GDP</td>
<td>02.00</td>
<td>01.50</td>
<td>00.80</td>
</tr>
</tbody>
</table>

Note: Industry includes construction
Source: Central Statistical Organization

The Liberalisation of Indian Economy in the 1980s

In the mid-term Lok Sabha election of 1980, the Congress returned to power with absolute majority. But when Indira Gandhi returned to power on her anti-poverty rhetoric, which seldom had been translated into real policy before or during emergency (1975-77), had been altered. Critical observers have suggested that after 1980 Indira Gandhi moved right words.41 And then after she could not sustain her power as she faced major riots both regionally in south India and socially among Dalits, the Muslims and the poor at large.42

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After 1980, Indira Gandhi sought to build her support base in Hindi heartland, where the Congress was rooted out in 1977 elections, and among business community who supported Morarji Desai by shifting away from the earlier aim of secularism and socialism.\textsuperscript{43} It must have been clear to Indira Gandhi by then that her socialism was not working.\textsuperscript{44}

Indira Gandhi initiated the trend towards liberalisation of Indian economy but her attempts went relatively unnoticed.\textsuperscript{45}

There was also change in the attitude towards such international institutions like IMF negotiations for the largest loan by the IMF were completed during that phase with certain conditions laid by IMF after completing the loan agreement for 5 billion dollars of Special Drawing Right (SDR) with the IMF, owing to conditionalities laid by the IMF Indira Gandhi made some important economic policy decisions. Steel and cement prices were decontrolled, restrictions on manufactured imports were liberalized and controls on both entry and expansion by national firms were relaxed in 1981. The government approved four times as many applications for undertakings as in any of the

\textsuperscript{45} Asian Survey, 33(2), February 1993, p. 308.
five preceding years.\textsuperscript{46} In 1981 Indira Gandhi announced that she was going to encourage private sector.\textsuperscript{47}

This was reflected in the Seventh Five Year Plan 1984. Economic liberalisation was very much the trend and it showed the signs of decline of Nehru’s socialistic policy. But all these developments did not draw sharp political reaction because of many factors like the scale of the change, the deliberate attempt to maintain an image of continuity decisions and problems of Punjab and Assam drew attention away from the economy.\textsuperscript{48}

Indira Gandhi was assassinated by her own bodyguards in 1984. The assassination of Indira Gandhi considerably influenced Rajiv Gandhi to come to power in 1984. There is no doubt that he was the successor (Heir apparent) and it was calculated that he was likely to inherit a full amount of Indira’s popularity and it was an opportunity to get sympathy because of her assassination. In 1984 General Elections Congress returned to power with ever

\begin{footnotes}
\item[47] Intervention in the debate on IMF loan, Rajya Sabha, New Delhi, December 3, 1981.
\item[48] Select speeches and writings of Indira Gandhi 1980-81, Publication Division, Ministry of Information and Broadcasting, Government of India, New Delhi, 1985, p. 279.
\item[48] \textit{Asian Survey}, 33(2), February 1993, p. 315.
\end{footnotes}
recorded majority in the history of Indian elections. It gained 415 seats out of 542 seats, a three-fourths majority.49

During Rajiv Gandhi's term India's economic policy went through three phases. During the first six months of his rule, there was a genuine attempt to make a decisive shift from the State controlled import-substitution model to a liberal model of development. The recipe suggested by him was improvement in productivity, absorption of modern technology and fuller utilization of capacity must acquire the status of national campaign. The basic trust of the new economic policy was a greater role for the private sector.50

To provide larger scope for private sector, a number of changes in policy were introduced with regard to industrial licensing, export-import policy, technology upgradation, fiscal policy, foreign equity capital, removal of controls and restrictions, rationalizing and simplifying the system of fiscal and administrative regulation.51

Rajiv Gandhi's bent towards liberalisation was mainly determined by the fact that he always surrounded himself with a

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50 Ruddar Dutt and KPM Sundaram, supra, no. 17, p. 229.
51 Ibid.
new type of politicians and advisors like Arun Nehru, Arun Singh, Montek Singh Ahluwalia, Abid Hussain, Bimal Jalan, Manmohan Singh and L.K.Jha – a clearly competent group of managers, economists and bureaucrats.\textsuperscript{52}

In the early state, Prime Minister Rajiv Gandhi had been selling programme of ultra modernization where high emphasis was laid on latest technology and over liberalisation of import policies and foreign technocrats into the country.\textsuperscript{53} He always dreamt of taking our country into 21\textsuperscript{st} century as one of the few highly modernized and industrialized countries in the world.\textsuperscript{54}

It was quiet evident from the budget of 1985-86, the first major product of the Rajiv Gandhi government. The word “Socialism” was not mentioned even once in the budget speech.\textsuperscript{55}

The Prime Minister Rajiv Gandhi encouraged a large number of high fund consuming programme and studies particularly touching every area of the economy to ensure India’s safe entry into the next century where it would enjoy status close with the top countries in the world.

\textsuperscript{52} Atul Kohli, supra, no. 44, p. 316.
\textsuperscript{53} The Times of India, January 6, 1986.
\textsuperscript{54} V.S.Mahajan, Supra No. 1, p. 2.
\textsuperscript{55} Summary and Discussion of 1985-86 Budget, The Times of India, March 21, 1985.
As Rajiv Gandhi confirmed himself to liberalizing India's economy, the government initiated a number of measures in this regard.

In the meantime the new economic policy of Rajiv Gandhi provided considerably more political opposition. As soon as he attempted to translate his broad mandate into a specific economic direction the first major source of resistance was his own party.\footnote{56} It was opposed by senior Congressmen who believed in socialism. Opposing the initiative to introduce liberalisation, leftists and other opposition parties criticized the government and called it pro-rich.

The second phase of Rajiv Gandhi's economic policy started with confrontation within his own party. The opposition was at the grass-root level and it did not take long time to be organized. Thus, it made him reconsider his, "New Economic Beginning" that had begun with the budget and it recommitted Rajiv Gandhi and the Congress party to socialism.\footnote{57} Two lengthy quotations from Jawaharlal's speeches, in the speech of Rajiv Gandhi presenting the budget for 1987-88, have been enough for cheering the leaders who like to flout. This left progressive pretensions to applaud the return of the young Prime Minister to what they call

\footnote{56} Atul Kohli, supra, no., 30, p. 223.
\footnote{57} The Times of India, May 27, 1985.
the Nehru path in economic policy. But the economic resolution which had recommitted Rajiv Gandhi to socialism, however, accepted all policy changes that Rajiv Gandhi’s government had introduced so far. Then Rajiv Gandhi continued to push piece meal liberalizing reforms most of which were carried out while reemphasizing his commitment to socialism.

The rhetoric on economic policy became increasingly confused. During the celebration of Congress Centenary on the day after the confrontation with the Working Committee over the economic resolution, Rajiv Gandhi reaffirmed that Congress’s goal had always been to continue to be socialism. Over the next few months the economic policy changes included several liberalizing measures.

A textile policy was passed without much debate. It virtually abolished the distinction between the mill, power loom and handloom sectors, as well as did away with the dissentions between natural and synthetic fiber for licensing purposes. The role of the Planning Commission was diminished by the creation of the new ministry of Programme Implementation. A new fiscal
policy was announced in November 1985. It replaced import quotas with tariffs and laid long-term patterns of taxation.\textsuperscript{62} The companies restricted under Monopoly Act were given further concessions.\textsuperscript{63}

In February 1986, the prices of petroleum and related products were increased. It was opposed by wider population and every opposition party planned for strikes and closing down of one city or the other. Further, many Congressmen themselves urged against the hike. Before the strike could materialize, however, the government reversed its decision. Rajiv Gandhi’s attempt to reduce India’s public expenditure on poverty programmes evoked considerable opposition and he backtracked. When plans, to remove subsidies on prices of essential goods like kerosene, were announced and once again it evoked considerable opposition and again he backtracked.\textsuperscript{64} All this led to BOP crisis. The trade deficit in first three years exceeded Rs.9,000 crore per annum.\textsuperscript{65} The journalist and economist, Prem Shankar Jha, warned that there could be anarchy if the rising expectations of Indians are not met. “In the final analysis, slow growth means slow employment. Slow growth of employment means growing

\textsuperscript{62} Hindustan Times, December 12, 1985.
\textsuperscript{63} Editorial, Economic and Political Weekly, 21(9), March 1, 1986, p. 333.
\textsuperscript{64} Atul Kohli, supra, no. 30, p. 223.
unrest and one of the two things will happen. The massive liberalisation, which Rajiv Gandhi has put through, were not without support of large industrialists. Mark Tully and Zaheer Massani observed, “You will get either a revolution or more likely in the Indian circumstances, a general collapse into anarchy.”

Rajiv Gandhi’s overall political popularity declined sharply in late 1986, which resulted in loss of many State assembly elections. The loss in Haryana State elections in 1987 was especially devastating because it was the part of Congress (I) party’s traditional power base, the Hindi heartland. The defeat in Haryana State elections marked the end of the second phase of Rajiv Gandhi’s economic policy. The second phase of Rajiv Gandhi was described by Economic and Political Weekly as a drama, the stage of which was split into two levels, the balcony and the street. Higher in the balcony, politicians sat, as if in ivory tower, experimenting on their ideas and aims, in the laboratory of the State and parliament. Down below on the ground were the common man. They were torn between sense of dignity and unworthy self interest, the hatred.

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66 Mark Tully Zaheer Masani supra no. 15, p. 150.
67 Economic and Political Weekly, 22(19), May 1987, p. 3.
The third phase of Rajiv Gandhi's initiative to change the economic policy started with the defeat of Congress in Haryana State assembly elections. After the defeat, there was a sudden change in strategy. Naturally, election not far away, there was an urgent need for highlighting those programmes, which touched the masses. As ultimately in Indian democracy, they are the rural people who are most influential in deciding the fate of the country. Suddenly, he concentrated himself in rural development programme. The government thrust towards economic liberalisation considerably declined or was set back to some extent.

The rural development programmes prepared were also in equal hurry. There were the programmes like decentralized planning, Panchayat Raj and Jawahar Rojgar Yojana. The Jawahar Rojgar Yojana, the biggest rural development programme, which aimed to help the population below poverty line, failed to do so because of the design of the Jawahar Rojagar Yojana itself. The wage structure contained some flaws. The wage ironically was too high, divided inappropriate between cash
and kind, and paid too infrequently to appeal to the very poor who required immediate access to hard earned income.\textsuperscript{68}

In 1987 India faced a drought problem. But Rajiv Gandhi's government did not come forward to provide succor to the distressed, instead, a directive was issued by the Finance Ministry to all nationalized banks to lend liberally for consumption to persons affected by the drought. It meant that government had no money; the treasury was empty, banker had to provide credit without reference to repayment capacity.\textsuperscript{69} Further to win over the minds of government employees, the Rajiv Gandhi government announced bonus payment of 25 days salary to government employees. It is interesting to note that no one expected not even demanded this bonus. The result was that net bank credit to the government at the end of the August 1987, had increased to Rs.775 billion from Rs.654 billion at the end of August 1986.\textsuperscript{70}

While no one could doubt that Rajiv Gandhi was sincere in his desire to liberalize the economy, it was equally beyond doubt that had failed miserably. His reverse in stand from liberalisation

\textsuperscript{70} Ibid.
to rural development programmes contributed to fuel inflation, BOP crisis and even India's share in the world trade declined from 0.6 per cent to 0.4 per cent.\textsuperscript{71}

The opposition adopted a relatively populist position, criticising Rajiv Gandhi's negligence of the interest of farmers and the poor. The challenge led by V.P. Singh in Hindi heartland, Jyoti Basu of CPM in West Bengal, NT Ram Rao and Ramakrishna Hegde in the south exposed Rajiv's electoral vulnerability among the lower classes.\textsuperscript{72} Using the Boforse scandal issue the opposition had succeeded in projecting Rajiv Gandhi as tinted Prime Minister.\textsuperscript{73} As a consequence, Congress (I) party was defeated in 1989 General Elections.

Economic Crisis and the Introduction of Liberalisation of Indian Economy

The era of the coalitions at the centre began with V.P. Singh's National Front Government between December 1989 and November 1990. It came to power on the basis of the outside support given to it by the BJP and the left parties.\textsuperscript{74} The period of National Front was short lived when BJP took back its support on

\textsuperscript{71} Share in the World, \textit{Asian Recorder}, June 10-16, 1992, p. 22358
\textsuperscript{72} Atul Kohli, supra, no. 43, pp. 323-324.
\textsuperscript{73} \textit{The Pioneer}, August 22, 2002.
\textsuperscript{74} \textit{The Pioneer}, May 22, 2004.
November 7, 1990. V.P. Singh resigned from the office of Prime Minister. Then Chandrashekar formed the government with the support of Congress (I), but his term of office was even shorter than V.P. Singh.

These two governments during their utter misrule of 18 months, had paralyzed Indian economy.\textsuperscript{75} The General Elections of 1989 with their inconclusive results further encouraged competitive populism rather than the implementation of measures to reduce the budgetary and balance of payment deficits. For example, soon after it was installed, the Janata Dal led government announced agricultural loan waivers resulting in a new burden of Rs.8,000 crore on the exchequer.\textsuperscript{76} And V.P. Singh drained away public resources by getting treatment for his personal ailment in England on the basis of millions of rupees spent by the Indian taxpayers.\textsuperscript{77} Pleading that his government had not been in the office long enough to plan the budget, for the first time in the history of India, Chandrashekar postponed the presentation of the annual budget in the parliament from the long fixed deadline of the end of February.\textsuperscript{78} Further to maintain the countries external obligations, the Chandrashekhar government in

\textsuperscript{75} A Brief History of Congress, An AICC Publication, New Delhi, 1992, p. 15.
\textsuperscript{77} Deccan Chronicle, August 5, 2001.
\textsuperscript{78} Asian Survey, 32(2), February 1992, p. 208.
May 1991, authorized State Bank of India to sell abroad 20 tonnes of government’s gold with an option to repurchase it after six months. The same government also authorized the Reserve Bank of India to pledge 47 tonnes of RBI gold to the Bank of England and the Bank of Japan to raise about $600 million. 

Again, while the procurement of wheat and rice was raised twice in 1990-91, no attempt was made to raise fertilizer prices which had remained unchanged since 1981, with the result that the burden of fertilizer subsidy stood at Rs.4,400 crore in 1990-91.

The situation was further aggravated by the Gulf crisis after August 1990, which cast a burden aggregating to Rs.1,30,000 million (approximately) on the Indian economy. It was a final toy in the rapidly unrevival financial situation. Annual inflation surged to over 10 per cent and foreign reserves fell to only $1.2 billion, scarcely enough to cover two weeks import. The whole Rio situation directly affected serious BOP crisis. India’s BOP on current account is shown Table 2.4.
Another crucial event occurred abroad. The Soviet Union, India’s close friend, treaty partner for two decades, defence supplier, diplomatic supporter and major trading partner as

**TABLE – 2.4**
India’s BOP on Current Account 1985-1991
(Rs. in Crore)

<table>
<thead>
<tr>
<th>Year</th>
<th>Trade deficit</th>
<th>Net invisible</th>
<th>BOP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985-86</td>
<td>- 9586</td>
<td>+ 3630</td>
<td>- 5956</td>
</tr>
<tr>
<td>1986-87</td>
<td>- 9354</td>
<td>+ 3524</td>
<td>- 5830</td>
</tr>
<tr>
<td>1987-88</td>
<td>- 9296</td>
<td>+ 3003</td>
<td>- 7293</td>
</tr>
<tr>
<td>1988-89</td>
<td>- 13555</td>
<td>+ 1975</td>
<td>- 11580</td>
</tr>
<tr>
<td>1989-90</td>
<td>- 12413</td>
<td>+ 1025</td>
<td>- 11388</td>
</tr>
<tr>
<td>1990-91</td>
<td>- 16934</td>
<td>+ 455</td>
<td>- 17369</td>
</tr>
</tbody>
</table>


well tottered and, in the summer of 1991, collapsed. The Impact on India was felt in trade and foreign affairs.\(^8^4\)

The aim of socialism is welfare of all. Despite its strong commitment to socialism, India has made disappointing strides in reducing illiteracy, improving education and improving health care condition of people. The literacy rate rose from 18 per cent in 1950 to only 50 per cent in 1990s and girls lay behind at all levels of schooling, over 186 million people did not have access to potable water supplies and 644 million did not have sanitary

facilities, life expectancy climbed from 40 to 51 years after independence but infant mortality remained high.\textsuperscript{85}

In May 1991, Rajiv Gandhi was assassinated in Perambandur of Tamil Nadu State. The Congress (I) party came to power in 1991 and P.V.Narasimha Rao became the leader of the Congress (I) party. When Rao's took over in June 1991, the country was facing a serious BOP crisis. The seriousness of 1991 crisis was evident from the fact that even before taking oath, the first name that P.V.Narasimha Rao had announced for his cabinet was that of Manmohan Singh, an outsider.\textsuperscript{86}

In 1991 the economy was in very bad shape. The growth of GDP was down to a mere 5 per cent from 10.4 per cent in 1988-89, industrial production was stagnating at about 8 per cent and inflation was soaring. The Wholesale Price Index (WPI) rose from 5.7 per cent in 1988-89 to 13.6 per cent in 1990-91.\textsuperscript{87}

The country in 1991 faced a serious BOP crisis. It, therefore, approached the World Bank and IMF to provide a huge loan of the order of about 7 billion dollars to bail India out of the crisis. In turn World Bank and IMF insisted for policy reversal, once again going back to liberalisation process.

\textsuperscript{85} John Adams, supra, no. 83, p. 156.
\textsuperscript{86} Ibid.
\textsuperscript{87} R.C.Umal, supra, no. 82, p. 6.
The Finance Minister, Manmohan Singh made a commitment to the IMF Managing Director Michael Camdessus in his letter dated August 27, 1991: “The thrust will be to increase the efficiency and international competitiveness of industrial production, to utilize foreign investment and technology to a much greater degree than in the past, to improve the performance and rationalize the scope of the public sector and to reform and modernize the financial sector so that it can serve more efficiently the needs of economy.” The letter reflects the changes in trade, industry and fiscal policies that the government had been advocating since it was established in July, 1991. The proposed policy changes were also mentioned in the memorandum of understanding with the Fund.

A crisis is an opportunity for introducing a new style of government pursuing a new model of development (new to the country, when the old style and old model can convincingly be presented as having led to disaster. In July 1991, P.V.Narasimha Rao and Manmohan Singh dared to open up the closed economy. The economic reforms introduced were based on
broad economic parameters, liberalisation, privatization, relaxation and integration of Indian economy with rest of the world. Until then Vijay Joshi and IMD Little maintained that India was the most autarkic non-communist country in the world. While IMF noted that India was one of the most heavily regulated economies in the world. The circumstances in which the government embarked on its new economic policies were unfortunate which of the three preceding governments had been the most careless or profligate, would long be debated, but between them they had brought India to the brink of financial disaster.

The basic changes which occurred soon after adopting new economic policy in 1991 by Narasimha Rao government led to the structural change of our economy. The new economy policy comprised the various policy measures and changes introduced since 1991. These changes involved a greater reliance on the market mechanism and this translated into a class of public policies including deregulation and reduction of governmental controls, greater autonomy of private investment, less use of public sector, more opening of the economy to international trade.

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and so on. There is a common thread running through all these measures. The objective is simple and that is to improve the efficiency of the system. A comparison is made between the economic policy that India followed before 1991 and after 1991 is given in Table 2.5.

The significant step in the direction of liberalisation was the industrial policy of 1991. The salient features are as follows:

1) Except for 18 industries of critical importance or elitist consumption licensing is not required for any industry.

2) Multinational companies having foreign equity holding up to 51 per cent are now permitted in priority sectors.

3) Foreign trading companies are allowed for promoting exports.

4) There shall be automatic approval of the technology agreements including those in high priority areas.

5) There shall be no pre-entry restriction on monopoly houses or foreign companies, on merger, takeover, expansion, on new units.

6) Control on monopoly will be either through complaints received by monopoly and Restrictive Trade Practices

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Commission (MRTPC) or by investigation done by its own.\footnote{K.V.Bhanumurthy, \textit{Economic Liberalisation : A Critical Overview}, \textit{Third Concept}, July 1996, p. 8.}

**TABLE – 2.5**

Comparison of Economic Policy before 1991 and after 1991

Old Regime vs New Regime

<table>
<thead>
<tr>
<th>Public Sector</th>
<th>Privatization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government owned basic and heavy industries.</td>
<td>Disinvestments of government share in ownership.</td>
</tr>
</tbody>
</table>

**Control**

<table>
<thead>
<tr>
<th>Licenced for industry</th>
<th>Decontrol</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Licence for industry</td>
<td>a) End of licensing</td>
</tr>
<tr>
<td>b) Various quotas and permits</td>
<td>b) Dismantling quotas/permits</td>
</tr>
</tbody>
</table>

**Economic Planning**

<table>
<thead>
<tr>
<th>Allocation of investment for development according to government.</th>
<th>Market determines investment, priorities and prices.</th>
</tr>
</thead>
</table>

**Protected Market**

| High customs duty on imports provides protection to domestic industry. | Lowering down of the customs duty ushers competition to domestic industries. |

**Domestic Capital**

<table>
<thead>
<tr>
<th>Discharges investments by multinational companies.</th>
<th>Direct Foreign Investment</th>
</tr>
</thead>
</table>

**Foreign Exchange Control**

| Fixed exchange rate system and restriction on FE. No market for FE. | Foreign exchange can be sold in the market, flexible exchange rates. |


The Rao administration tackled the fiscal problem. It devalued the rupee some 20 per cent, then took steps to reduce the deficit by reducing expenditures and increasing revenues. It eliminated all export subsidies and most subsidies for fertilizer
and sugar. It also cut some subsidies for public sector enterprises (PSEs). The government modestly reduced defence spending.96 Prior to 1985, foreign investment in India had largely been absent or was only nominal relative to the size of the economy. Even including the higher inflows between 1985 and 1991, the annual average for all foreign investment – that is FDI and portfolio foreign investment (PFI) was only $.99 million from 1970 to 1991. After the decisive shift to liberalisation in 1991, the role of foreign investment in the Indian productive system began to change.97 The broader shift in the economic policy had reverberations for policy on capital movement as well. Restrictions were loosened first in respect of trade, current account payments and FDI followed by liberalisation of PFI. since then almost every year has seen further relaxation of restrictions.98

In 1992 and 1993 economy was stabilized to a certain extent. Annual GDP grew 4.3 per cent, agriculture resumed expanding at 4.0 per cent but industrial output tumbled at a

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97 Baldev Raj Nayyar, Opening up and Openness of Indian Economy, Economic and Political Weekly, 36(38), September 15, 2001, p. 3533.
98 Ibid., p. 2534.
sluggish 3.2 per cent rate compared to more than that 6 per cent annual GDP growth path of the 1980s.99

The reforms from 1991-93 may be summed up as:

**Fiscal**

- Reduction of the fiscal deficit
- Launching of reform of major tax.

**External Sector**

- Devaluation and transition to a market determined exchange rate.
- Phased reduction of import licensing (Qualitative restrictions)
- Policies to encourage direct and portfolio foreign investment.
- Monitoring and controls over external borrowing, especially short term.
- Build up of foreign exchange reserves.
- Amendment to FERA to reduce restriction on firms.

**Industry**

- Virtual abolition of industrial licensing.

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99 R.C.Umal, supra, no. 82, p. 8.
• Abolition of separate permission needed by MRTP houses.
• Sharp reduction of industries served for the public sector.
• Free access to foreign technology.

Agriculture

• More remuneration procurement prices for cereals.
• Reduction in protection to the manufacturing sector.

Financial Sector

• Phasing in of base prudential norms.
• Reduction of reserve requirements for banks (CRR and SLR)
• Gradual freeing of interest rates.
• Legislative empowerment of SEBI.
• Establishment of national stock exchange.
• Abolition of government control over capital issues.

Public Sector

• Disinvestments programme begun.
• Greater autonomy/accountability for public enterprises.100

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As the disinvestments from public sector enterprises began, the government initially decided to disinvest up to 20 per cent of the equity of few such enterprises. This was expected to fetch Rs.2,500 crore. The percentage was raised to 49 and the government expected to raise Rs.3,500 crore from the sale of public sector equity in 1992-97. India signed the conviction of Multilateral Investment Guarantee Agency (MIGA) in April, 1992. A World Bank affiliate, MIGA, provided insurance to foreign investors against political risks such as currency transfer, expropriation, war and civil disturbances and breach of contract. Signing this conviction symbolized India's "market friendly" approach. Liberalisation of Indian economy may be regarded as a major factor which led to signing multilateral trade agreement GATT in 1993. This was very much opposed by the opposition parties like the BJP and other Communist parties. The General Agreement on Trade and Tariffs (GATT) is multi-lateral trade agreement signed by 23 member nations including India in 1947. Legally, it is an international treaty. Yet another step ahead in the same direction India joined hands with World Trade Organization (WTO). The WTO, which replaced the GATT came

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into effect from January 1, 1995 with backing of 76 founder members including India.\textsuperscript{104} WTO monitors the implementation of multilateral trade agreements. The WTO agreement covers everything from agriculture to textile and clothing and from services to government procurement, rules of origin and intellectual property. The multilateral trading system operates on the most-favoured nation (MFN) principle, i.e., no counting is to give special trading advantages to another country.\textsuperscript{105} As a result of this many Multinational Companies (MNCs) entered India. There were 112 MNCs in India in 1996.\textsuperscript{106}

By 1994, mining, most manufacturing sectors, electricity, airlines, telecommunications and banking had been substantially opened to private domestic investors. Foreign companies were welcomed more selectively.\textsuperscript{107} In the mid-1994, industrial growth fully resumed and GDP expansion moved above 5.00 per cent. By the end of 1995 the industry was growing approximately at 8.00 per cent annual and aggregate GDP rate was about 8.00 per cent. In April, 1995, items such as coffee, audio tapes, personal computers and sport goods were added to the list of

\textsuperscript{104} B.N.Ahuja, supra, no. 27, p. 234.
\textsuperscript{105} Globalisation on the March, Manorama Year Book 2002, Malayala Manorama, Kottayam, p. 72.
\textsuperscript{107} John Adams, supra, no. 83, p. 154.
consumer imports no longer requiring official approval. New private banks were sanctioned and all banks were given greater latitude to make loans and set interest rates. Personal and corporate tax rates were lowered and simplified. The rupee was then convertible. In the year 1996, despite contradictory and sometime confusing policy signals the Indian economy continued to perform reasonably well. The GDP growth rate was 6.6 per cent in 1995-96 up from 6.3 per cent in 1991-92. The overall economic growth during the first four years of the Eighth Plan (1992-97) averaged 5.8 per cent above the planned target of 5.6 per cent. Industrial production grew by 11.8 per cent during 1995-96 and agriculture registered important gains following a remarkable harvest. The food grain output was expected to reach a record 192 million metric tonnes in 1997 surpassing the 1995-96 mark of 185 million metric tones. Inflation remained under control. It was 6.6 per cent late in the year.108

Though many economic reforms introduced by P.V.Narasimha Rao government helped India to overcome the crisis exited in 1991, but five year term of Narasimha Rao witnessed many scam and scandals, such as security scam, sugar scam, urea scam, Saint chits forgery scandal, JMM bribery

scandal and number of prominent politicians on the charges of informant in the so-called 'hawala' scandal. All these factors had adverse effects on the performance of the Congress government which was reflected in 1996 General Elections.

Indian Economy During Coalition Era

BJP emerged as the single largest party and formed the government under the leadership of A.B.Vajapae. But his term was only thirteen days followed by the subsequent formation of the 13 parties United Front coalition minority government with the external support of the Congress (I). H.D. Devegouda of the Janata Dal party became the Prime Minister.

The GDP growth rate of 6.60 per cent in 1995-96 and overall economic growth during the first four year years of Plan (1992-97) averaged 5.80 per cent above the planned target of 5.60 per cent. Industrial production grew by 11.8 per cent. The food grain output expected to reach a record of 185 million metric tones in 1997.109

The United Front government under the leadership of H.D.Devegouda fashioned guiding document, entitled A Common Approach to Major Policy Matters and a Minimum Programme.

Though the Minimum Programme carefully skirtered the contentious issue of economic liberalisation, it nevertheless affirmed the importance of pursuing macro-economic policies designed to produce high growth.\textsuperscript{110} But the Congress party withdrew its support to the ten-month old ruling United Front government at the Centre.\textsuperscript{111} The United Front Parliamentary Group elected I. K. Gujral as its leader and he became the Prime Minister of the country. However, he also broadly continued the same policies of the United Front government.

These two United Front governments included the two major Communist parties, the CPI and CPI (M) – the prospect of economic reforms became a subject of some speculation. The left parties in the coalition were particularly opposed to privatisation. The reduction of subsidies and leaving the administered prices to market fluctuations were resisted by practically all parties. The UF governments liberalized imports in at least three installments, gradually shifting more items from the restricted to the special import list and from the latter to the free import category. It also ended State monopoly over coal and lignite mining 25 years after their nationalization.\textsuperscript{112} The UF government also signed a global

\begin{footnotesize}
\textsuperscript{110} Ibid., p. 130.
\textsuperscript{111} The Hindu. March 31, 1997.
\textsuperscript{112} M.P. Singh, \textit{The Impact of the UF on India's Economy Policy}. \textit{Asian Survey}, 16(2), March/April, 2001, p. 349.
\end{footnotesize}
telecommunications treaty at the WTO conference held in Geneva in February, 1997. Another landmark of the regime was the WTO draft declaration signed by India and 127 other countries at its first ministerial conference in Singapore on December 13, 1997. It endorsed a global Information Technology Agreement to do away with tariffs on the expanding $600 million world market in computer related products.\textsuperscript{113}

Mid-term poll in 1998 became inevitable since the Congress decided to withdraw its support to I.K. Gujral coalition government. In the elections of 1998, once again the BJP emerged as the single largest party and formed the government with its allies. In 1998, in addition to its hitherto allies, the Akali Dal and the Samata Party, it managed to convince such regional parties as the AIADMK and Biju Janata Dal (BJD) to join it in forming the government. It persuaded other regional parties like the Trinamool Congress and the Telugu Desam to offer support from outside.\textsuperscript{114} When it came to power the GDP growth rate was at less than 5.10 per cent in 1997-98 and industrial growth crashed by half from 12.50 per cent in 1995-96 to 5.40 per cent in 1997-98. The export growth was negative.\textsuperscript{115}

\textsuperscript{113} Ibid., p. 350.
Economy growth fell to 4.80 per cent in 1997-98. Agriculture recorded negative growth. Only services boomed at 9.80 per cent.\textsuperscript{116}

The year 1998 witnessed the fall of economic growth due to many reasons. Economic decline had begun with the monetary policies of 1995-96 and growing political uncertainty, nuclear tests conducted by BJP led coalition government in May 1998 contributed to the situation. Many countries like America, England, France, Japan and Australia imposed economic sanctions against India. The economic consequences of the nuclear test conducted by the government were modest. The economic sanctions initially led to the loss of US and Japanese export-import credits. Although they had an adverse short-term impact on much needed infrastructure projects, they were soon restored. The sanctions also targeted loans from multilateral lending institutions but the effects were quite limited.\textsuperscript{117}

Most underlying measures of India's economy continued their decline leading Central Bank to conclude that the macro-economic inflation, money supply, trade deficit and growth was a matter of serious concern. At around 5.00 per cent from 1998-99


growth would be slightly less than 5.10 per cent of 1997-98 but a marked fall from steady 7.00 per cent growth rate during 1994-96. Industrial growth which crushed by half from 12.40 per cent in 1995-96 to 5.50 per cent in 1997-98 will be less than 5.00 per cent in 1998-99. On the external front export growth was negative (by 3.00 per cent to 5.00 per cent in dollar term). The weakness of the export sector was already apparent with double digit growth of the mid-1990 declaiming to 5.30 per cent in 1996-97 and a more 2.60 per cent in 1997-98.

The second term of A.B. Vajapayee as the Prime Minister of India came to an end when AIADMK leader Jayalalitha decided to withdraw her party support to BJP coalition. The twelfth Lok Sabha was dissolved in April 1999.

But under the new banner of National Democratic Alliance (NDA), the BJP once again formed the government with its allies in 1999. The growing political unsuitability was clearly reflected in economic developments. Both the fiscal deficit and the revenue deficit increased about by 3.00 per cent of GDP between 1995-96 and 1999-2000. This sharp widening in deficits was fully reflected in the decline of public saving from 2.00 per cent of GDP in 1999-2000. This in turn fully explained the drop in

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118 Shankar Acharya, supra, no. 102, p. 2898.
119 Ibid.
gross domestic savings from its peak 25.10 per cent in 1995-96 to 23.20 per cent in 1999-2000.\textsuperscript{120}

The BJP led NDA government passed the Insurance Regulation and Development Bill on December 23, 2000. IRDA issued first batch of six licences to joint ventures with 26 per cent foreign equity.\textsuperscript{121}

The decline in the economy continued up to the first half of 2002-03. Both agriculture and industry have recorded growth well below the target set in the Ninth Five Year Plan (1997-02). This state of affairs further affected by severe drought in 2002, which led to sharp decline in food grain production to 182 million tones compared to previous year 212 million tones. The agriculture growth was negative by 3.00 per cent.\textsuperscript{122} As part of their efforts to enter the Indian insurance industry a number of international insurance companies had set up representative offices in India. Already a number of foreign companies have tied up with domestic groups and include: AIG, U.S. – Tatas: both non-life and life; AXA, France – Cholamandalm Group: non-life; All State, U.S. – Dabour: life; CGNU, U.K. – Hindustan Times: Life; CGNU, UK, - Bombay Dying: non-life; Canada

\textsuperscript{120} Ibid., p. 2899. 
\textsuperscript{121} India 2002, Publication Division, Ministry of Information and Broadcasting, Government of India, New Delhi, p.779

Later half of 2002-03 was a sign of relief for the NDA government. The industrial growth ended the year 5.80 per cent rise compared to 2.80 per cent of the previous year. Foreign exchange reserve by mid-July 2003 stood at 82 billion dollars. India could for the first time become a creditor to IMF, contributing 291 million dollars to its financial. Transaction plan which facilitates lending to countries in need of BOP support from IMF.  

The national income of 2002-03 rose to Rs.11,61,580 crore from previous year's Rs.11,15,157 crore and per capita income of 2002-03 was Rs.11,010 as against previous year's Rs.10,754. More than 23 million Kisan Credit Cards were introduced in 1998-99 to help farmers to obtain short-term credit. By December 2003 industrial production further rose to 6.30 per

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123 The Hindu, October 14, 2000.  
124 Supra, no. 123, p. 514.  
cent. The consumer goods segment recorded an increase of 7.40 per cent. The growth rate of GDP grew at a spectacular rate of 8.1 per cent during 2003-04.\textsuperscript{126}

Government also took steps to bring down the public debt through a process of pre-payment of costly external debt, taking advantage of comfortable foreign exchange reserves and buy back loans from bank controlled under high interest regime India’s share in the world trade touched 0.80 per cent and exports reached 51.70 billion dollars.\textsuperscript{127} Bank deposits by Non-resident Indians (NRI) in India rose by 2.80 billion dollars to 28.40 billion dollars in 2002-03. Non-resident external rupee account recorded the strongest growth. The number of the Automated Teller Machine (ATM) was 800 in 1999 and 10,000 in 2003. India has emerged as a major vehicles producing country over 5,41,000 passenger cars (domestic sale). 1,60,969 tractors were produced which made India large tractor producer in the world.\textsuperscript{128}

The rapid growing speed of the economy, however, continued in 2004. During the end of January 2004 exports continued growing by 12.83 per cent industrial production clocked a strong growth of 7.40 per cent in the month of January.

\textsuperscript{126} Ibid., p. F60.
\textsuperscript{127} Competition Affairs, 17(4), April 2004, p. 44.
\textsuperscript{128} General Studies, supra no. 126, pp. F19-37.
2004 and it was estimated that business process outsourcing market is expected to reach one trillion dollars by 2006.\textsuperscript{129}

At the end of the first quarter of 2004 there was an air of optimism that the country might well have turned the corner to stage the much awaited recovery. To take advantage of the existed situation the NDA government advised the President APJ Abdul Kalam on February 6, 2004, to dissolve the 13\textsuperscript{th} Lok Sabha before the completion of its five year term paving the way for early General Elections.

The early General Elections held in April-May 2004 for the fourteenth Lok Sabha proved to be disastrous for the BJP led NDA coalition. The 14\textsuperscript{th} Lok Sabha elections of April/May 2004 have led to the formation of a United Progressive Alliance coalition government at the Centre replacing the Vajpayee-NDA government. A salient feature of Manmohan Singh led UPA government is that many regional parties agreed to participate in the Congress led government, supporting from outside by Communist Bloc of MPs.\textsuperscript{130}

A disaster took place in the Indian market on May 14, 2004. The left parties which supported UPA demanded for scraping of

\textsuperscript{129} Competition Affairs, 17(5), May 2004, pp. 49-50.
disinvestments policy and asked to review the economic policies of the NDA government.131

This fear over disinvestments led to the crash of stock markets making investors to lose Rs.1,24,000 crore in share prices. The sensex ended at 564 points lower, second largest fall in stock market history.132 However, market bounced back when it was confirmed that Manmohan Singh would be the next Prime Minister of India.133

On May 22, 2004, Manmohan Singh sworn in as the Prime Minister of India and L.K. Advani of the BJP became the opposition leader.

However, India's exports crossed 40 million dollars at the end of 2004. Indian Personal Computer (PC) market grew by 35.10 per cent.134 Indian software and services industry project to cross the 20 billion dollars mark in 2004-05. Cellular phones sector grew by more than 106.00 per cent.135

The new Prime Minister Manmohan Singh accounted that the reforms would continue but PSUs like GAIL and GNGC would remain in the public sector and he asserted that the nationalized

134 Competition Affairs, 18(1), January 2005, p. 61.
135 Competition Affairs, 17(8), August 2004, p. 52.
banks would not be privatised. The newly elected UPA government according to its Common Minimum Programme downsized the Disinvestments Ministry as a department which would remain under the Finance Ministry.

Some major goals, enunciated in the budget 2004-05, are doubling agriculture credit in three years providing farm insurance and livestock insurance. The Budget has proposed an additional budgetary support of Rs.10,000 crore to the annual plan over the amount of Rs.1,35,301 crore provided in the Interim Budget. The UPA government replaced the existing Export-Import Policy (2002-07) with a new Trade Policy with an objective to double the share of the global trade by 2009.

The UPA government replaced the sales tax by Value Added Tax (VAT) and as many as 21 states have introduced VAT replacing sales tax from April 1, 2005. The government announced new foreign trade policy to boost retail sector and exports of marine and small-scale industry (SSI) products. The infrastructure growth slowed down to 4.4 per cent during 2004-05 mainly due to poor showing by petroleum refining, coal and steel

139 Supra, no. 126, p. 123.
141 Deccan Herald. April 9, 2005.
sectors. However, India's exports surplussed the annual target of $0.79 billion to clock $0.79-59 reporting a growth of 24.45 per cent over the previous fiscal.\textsuperscript{142}

In major decisions concerning the newspaper industry, the Union Cabinet decided to permit foreign investment by NRIs, PIOs, overseas Corporate Bodies and portfolio investments, besides FDI in print media but maintained the ceiling of such investment at 26 per cent.\textsuperscript{143} Besides Bharat Heavy Electricals Ltd., the government decided to disinvest from four more PSUs. They are Tyre Corporation of India, Nepa, Richardson and Cruddas and Tide Water Oil Company.\textsuperscript{144}

Giving a new dimension to budgetary exercise, the government on August 25, 2005, presented in Parliament the first ever Outcome Budget, which seeks to measure the physical targets achieved on the financial outlays of various ministries.\textsuperscript{145} Now the UPA government under the leadership of the Congress party with external import of the Left parties is continuing reform policies with a human face.

\begin{footnotes}
\item[142] Deccan Herald, April 30, 2005.
\item[143] The New Indian Express, June 17, 2005.
\item[144] The New Indian Express, June 30, 2005.
\item[145] Deccan Herald, August 26, 2005.
\end{footnotes}
This brief survey of the Indian economic policy and introduction and operation of liberalisation of Indian economy indicates how change and continuity occurred during the different periods.