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Amitabh Ranjan (amitabhranjans@gmail.com)

1990s: The Reforms Decade

The background and the measures

The period between the aftermath of the Emergency (1977) and the beginning of the 1990s in India was one of political instability except for the full-term of the Rajiv Gandhi government following the assassination of Indira Gandhi in 1984. The compulsions of running an economy as vast and diverse as India coupled with a fluid political situation during the 1980s ultimately played havoc with the economy.

The 1980s was marked by:

- Increased expenditures in social sector and defence
- These expenditures did not bring immediate gains in revenue
- The expenditures led to deficit financing and acquired unsustainable levels
- Deficit financing, in turn, led to foreign borrowings, both from countries and institutions
- A large part of such borrowings was used to pay debts and interests and for consumption needs
- There were no efforts to increase exports in proportion to imports
- There were infrastructural bottlenecks and a complex system of licensing regime which were roadblocks to industrial and commercial expansion
- Prices of essential commodities rose sharply.

At the turn of the new decade, as a combined repercussion of the above, India had a woefully inadequate forex (foreign exchange) reserve left with it. It was not enough to finance imports for more than two weeks. India was also on the verge of defaulting in terms of interest payment to global lenders.

India, thus, had to knock at the doors of the World Bank (IBRD) and the International Monetary Fund (IMF). As an immediate relief, India received $7 billion to manage the crisis. But the relief came with three broad conditions:

i) Liberalise and open up the economy, that is, remove restrictions on the private sector;
ii) reduce the role of the government in many areas concerning business; and
iii) Remove trade restrictions with countries, meaning easing of tariffs on foreign goods and services

India agreed to most of these conditionalities and brought about what is called the New Economic Policy (NEP). This had a two-pronged approach. One, short-term and the second, long-term. It was decided to maintain sufficient foreign reserve and check soaring prices in the short-term. In the long-term, the government decided to have three thrust areas of economic actions. These were

a) Liberalisation
b) Privatisation
c) Globalisation

It helped that one of the most steadfast allies of India, Russia, had experimented with the approach by going for Glasnost and Perestroika in the second-half of the 1980s under Mikhail Gorbachev. In India, the architects of the NEP were the then Prime Minister Narasimha Rao and his Finance Minister Manmohan Singh.

Under **liberalisation**, the government took such measures as to reform and expedite reform measures already in progress in areas like export-import, deregulation of industrial sector, making the Reserve Bank of India (RBI) as more of a facilitator than a regulator, removing or minimising quantitative restrictions on imports among others.

As part of **privatisation**, the government paved the way for what is called disinvestment. This was done by selling off part of the equities of public sector enterprises or units (PSEs/PSUs) to the public. It was thought that private capital and managerial skill would improve the performance of the PSUs. It was also thought that privatisation could boost foreign direct investment (FDI). The government also gave autonomy to many PSUs to have independence in decision-making.

As part of the **globalisation** process, India went for interdependence and integration with the global economy. Outsourcing was one of the significant outcomes of globalisation whereby firms were able to hire services of the foreign workforce, depending on their skills and wages. It was assisted by a rapid growth in information technology.

The country also became a member of the global trading community by becoming a signatory to the **World Trade Organisation** (WTO) in 1995. WTO is a successor to the General Agreement on Trade and Tariff (GATT) which was established in 1948. The WTO agreement covers trade in goods and services to facilitate bilateral and multi-lateral international trade through the removal of tariff and non-tariff barriers and providing greater market access to all member-countries.

There are opinions both in favour and against vis-à-vis the net result of the NEP. According to one view, the policies led to India recovering from the dire economic straits and hit on a path of high growth by leveraging the global market and modern technology. The other opinion is that India with its huge market fell prey to the developed economies and the growth did not lead to an equitable distribution of income and development in key human life indices. As a member of the WTO, India also could not reap its comparative advantage in agriculture and allied activities.