PIIE PETERSON INSTITUTE FOR INTERNATIONAL ECONOMICS

WORKING PAPER

25-2 Dismantling the License Raj: The Long Road to India's 1991 Trade Reforms

Douglas A. Irwin

January 2025

ABSTRACT

In July 1991, India began to dismantle its long-standing, highly restrictive import control regime and move toward a more open economy. How were policymakers able to dislodge and replace an entrenched system with powerful vested interests behind it? Standard explanations for policy change—pressure from domestic producer interests, shifts in political power, or conditionality by international financial institutions—do not explain the dramatic transformation that took place. Instead, reform-minded technocrats persuaded political leaders to reject what had been a standard response to balance of payments pressure (import repression to avoid a devaluation) and embrace a new approach (exchange rate adjustment and a reduction of import restrictions). This paper explores the economic and political context behind the country's dramatic policy transformation. India's experience highlights the crucial link between exchange rate policy and trade policy.

JEL codes: F13, F31, F36, N15
Keywords: India, trade reform, exchange rates, foreign exchange reserves, tariffs, import licensing

Douglas A. Irwin, nonresident senior fellow at the Peterson Institute for International Economics, is the John French Professor of Economics at Dartmouth College.

Author's Note: I thank Montek Singh Ahluwalia, Jagdish Bhagwati, Ashok Desai, Anne Krueger, and Rakesh Mohan for valuable discussions over the years, and Arvind Subramanian, Shruti Rajagopalan, Petros Mavroidis, and Arvind Panagariya for helpful comments. The interested reader should consult the 1991 Project led by Shruti Rajagopalan for a treasure trove of information about this period (https://the1991project.com/).

1750 Massachusetts Avenue, NW | Washington, DC 20036-1903 USA | +1.202.328.9000 | www.piie.com

1. Introduction

For many decades after winning independence in 1947, India maintained comprehensive controls on the volume of imports allowed to enter the country. These controls took the form of import licensing, wherein the purchase of foreign goods was not permitted without government permission, hence the term "license raj." These controls made India virtually a closed economy. Quantitative restrictions on imports, combined with tariffs as high as 300 percent, ensured that Indian producers controlled about 95 percent of the domestic market for manufactured goods and almost 100 percent of the consumer goods market (World Bank 1989, 7).

Such trade restrictions were sometimes justified as promoting industrialization through import substitution. While industrialization was certainly a goal of policymakers, the primary purpose of these import controls was to conserve foreign exchange reserves, which were almost always at risk of depletion. The shortage of foreign exchange, and India's frequent balance of payments difficulties, stemmed from the chronic overvaluation of the rupee against other currencies.

The rupee was overvalued because of the fear of devaluation, even in the face of adverse balance of payments shocks, and the failure to adjust the nominal exchange rate despite India's relatively high inflation rate. The overvalued rupee made India's products uncompetitive on world markets: from the 1950s through the 1980s, the country's merchandise exports amounted to only 3–4 percent of GDP, meaning that its foreign exchange earnings were meager. The overvalued rupee also made foreign goods inexpensive in comparison to domestic goods, creating a large demand for imports. This situation led to excess demand for foreign exchange that was addressed by rationing through import licenses.

In early 1991, a balance of payments crisis brought foreign exchange reserves to precariously low levels. In previous such situations, the government had responded by tightening import controls to reduce the spending of foreign exchange and safeguard reserves. This time, however, the government was staffed with policymakers and economic advisors who wanted to overhaul India's trade regime. They sought to increase export earnings so that the country could pay for its imports without relying on foreign aid or

external borrowing. They saw a devaluation as a way of increasing the incentive to export and an efficient way of limiting imports. They also wanted to adopt a more flexible exchange rate regime so that the country could avoid balance of payments problems in the future.

With the support of Prime Minister Narasimha Rao, Finance Minister Manmohan Singh led a small reform team that devalued the rupee, relaxed foreign exchange restrictions, abolished most import controls, scrapped industrial licensing, and opened the country to more foreign investment—all within a few weeks in July–August 1991. Within three years, the government adopted a flexible exchange rate, and the rupee was made convertible for current account transactions. This fundamental change to the exchange rate regime made any return to the draconian import controls of the past unnecessary. Over the next decade, with surprisingly little political opposition, the average tariff on imports was reduced from more than 100 percent to about 40 percent.

The effects of India's dramatic economic reforms were remarkable and have been studied extensively (e.g., Kotwal, Ramaswami, and Wadhwa 2011). The exchange rate and trade reforms helped lift merchandise exports from 5 percent of GDP in the late 1980s to about 15 percent of GDP by the early 2000s. As export earnings grew and import controls were relaxed, the country began purchasing a greater variety of foreign goods, particularly capital goods, leading to significant productivity gains.[1] Lant Pritchett and colleagues (2016) date a growth acceleration in India starting in 1993 that lasted nine years and produced an extra $1 trillion in national income, or $1,200 per capita. This was followed by another growth acceleration in 2002 that added even more income to the economy. A synthetic control analysis of India's reforms suggests that it raised national income by 25 percent by 2000 (Amaya 2020). The acceleration in economic growth contributed to a marked reduction in poverty.[2]

---

[1] See, for example, Goldberg et al. (2010). Johri and Rahman (2022) find that import restrictions raised the relative price of capital goods, reducing GDP per worker by 3 percent in 1991 compared to 1981, and their removal increased GDP per worker by 20 percent.

[2] Datt, Ravallion, and Murgai (2019, 24) note that "even though a trend decline in poverty started to emerge around the mid-1970s, the pace of poverty reduction accelerated post-1991, with a five- to sixfold increase in the proportionate rate of decline in the incidence of poverty relative to the preceding thirty-five years. The acceleration in rural poverty decline was even higher than that for urban poverty."

While the economic consequences of the 1991 reforms are fairly well known, explaining how such a fundamental shift in policy was politically possible—in the face of entrenched opposition and status quo bias—is less well understood. The restrictions that choked India's trade were backed by powerful vested interests—protected firms, license holders, and government bureaucrats with discretionary power—all of whom benefited from the existing import control regime. Although many of the country's policymakers were aware of its shortcomings, the import licensing system seemed politically untouchable and had remained intact for decades.

The standard explanations for policy change—pressure from domestic producer interests, a shift in partisan control of government, conditionality by the International Monetary Fund (IMF) and World Bank—do not seem to explain the new direction in India's policy.[3] Exporters were politically weak because exports were a tiny part of the economy, while many domestic producers were protected from imports and feared being exposed to foreign competition. The Congress Party that created and defended the complex system was also the party that dismantled it, even though its ruling ideology had not fundamentally changed over this period. Although the IMF and World Bank supported the new policies, they were not the driving force behind them.

Even the observation that the policy changes were undertaken in the midst of a balance of payments crisis is not a sufficient explanation. Crises create opportunities for reform but do not necessarily lead to it. In fact, India's previous payments difficulties in 1965–67, 1973–75, and 1979–81 failed to bring about any significant changes in the trade and exchange rate regime. What requires explanation, therefore, is what was different in 1991.[4]

The failure of standard explanations of policy change to account for India's policy reforms leads one to consider the role of ideas that prevailed among policymakers.

---

[3] For an overview of policy reform, see Rodrik (1996).

[4] Finance Minister Manmohan Singh certainly saw the 1991 crisis as an opportunity. "It helped us liberalise the economy. There would have been difficulties in making changes without a crisis" (www.sikhtimes.com/bios_111405a.html). The inability to undertake reform in previous decades is sometimes attributed to the absence of a crisis. As Srinivasan (1992, 152) noted, "India has not yet experienced any terrible or drastic economic crises, which could be clearly seen as having been induced by mistaken policy, and hence generating political support for reform…the absence of crises has meant that there is still no groundswell of pressure for reform of the system."

Economists often avoid attributing policy changes to individuals or groups motivated by ideas, looking instead for deeper structural factors such as economic interests or the institutional arrangements that shape the power of those interests. But as Dani Rodrik (2014, 205) has observed, "because of their neglect of ideas, political economy models often do a poor job of accounting for policy change."

This paper finds that the ideas and beliefs (preferences) held by technocratic economists in policymaking positions, rather than interest group pressure or some new political consensus, were responsible for the shift in India's trade and foreign exchange policy.[5] The immediate problem facing the country was earning enough foreign exchange through exports to pay for the imports (food, fuel, fertilizer, machinery and spare parts) that were necessary to maintain a productive economy. In the past, policymakers usually responded to balance of payments shortfalls by restricting imports, requesting foreign aid, and borrowing from abroad. With the options of foreign aid and foreign borrowing having been largely foreclosed, the government in 1991 faced the choice of import compression (by limiting the spending of foreign exchange) or export expansion (via a devaluation). A small group of policymakers believed that a devaluation and a liberalized trade and payments regime would be a better way of addressing the country's balance of payments difficulties than further restricting payments for imports. The government said as much in stating that its goal was to "shift from a foreign-exchange constrained control regime to a more open, market-oriented liberalized economy" (Government of India 1994, 84).

Although this approach was championed by top officials at the Ministry of Finance, Ministry of Commerce, and Reserve Bank of India, ideas are not self-implementing. To take effect, a new policy mix must be accepted by the country's political leaders over competing alternatives, such as maintaining the status quo. The 1991 reforms are remarkable because

[5] Others who have studied this period have reached similar conclusions. Shastri (1997, 28) argued that "policy reform was favored by state elites under the influence of new ideas, eliciting a change in the ideological orientation from those that shaped earlier policies." Mukherji (2013, 368) writes: "By 1991, India's technocrats knew what had to be achieved, but they were frustrated that powerful vested interests stood in the way. The country's balance of payments crisis…empowered a convinced executive technocratic team to unleash a series of reforms that changed the course of India's economic history." "Throughout the post-independence period, major changes in Indian economic policy have seldom been a response to domestic political pressure," notes Kochanek (2007, 428). "Such reforms are usually initiated by a small technocratic elite in the bureaucracy supported by a small group of key political leaders." See also Sengupta (2008).

they occurred in the apparent absence of strong political leadership. Rao, a charmless caretaker prime minister—described by one of his advisors as having the "charisma of a dead fish" (quoted in Sitapati 2016, 98)—lacked a power base within his own party and headed a weak minority government that faced repeated no-confidence votes in the Lok Sabha (India's parliament). Yet despite his longtime support for Nehruvian socialism, Rao presided over and skillfully managed a fundamental shift in the direction of economic policy. This happened despite the objections of the Congress Party's rank and file who feared that opening the economy would undermine national sovereignty, hurt domestic industries and their workers, and prove detrimental to the poor. Rao and his ministers had the courage to take on the "witch's brew of stale ideology, vested interests, and fear of the unknown" (Acharya 2003, 133) that prevented previous governments from undertaking reforms.

The reforms could be undertaken quickly because technical decisions regarding the exchange rate and the disposition of foreign exchange could be made by the Ministry of Finance and the Reserve Bank of India with the approval of the prime minister and the consent of the cabinet. Despite India's being a parliamentary democracy, its trade policy was not a major issue of electoral politics and the government had broad discretion in choosing its economic policies.[6] The decision-making process did not involve many institutional entities that could act as veto points; changes to the tariff schedule were just one item among many embedded in the annual budget that required approval by parliament. Furthermore, the reforms were politically successful because they did not immediately challenge key producer interests. The depreciation of the rupee and foreign exchange reforms boosted the profitability of exporters while insulating import-competing industries from the gradual reduction in quantitative restrictions and import tariffs, with the ban on imports of consumer goods remaining in place. Other more politically contentious reforms, including the end of industrial licensing and reductions in fertilizer subsidies, were undertaken simultaneously and drew more opposition, thereby shielding the trade reform from direct political attack.

[6] See Varshney (1999). According to a poll conducted in 1996, only 19 percent of the Indian electorate had heard of the economic reform, and most did not know exactly what it was (Kumar 2004, Varshney 1999).

This paper examines India's trade and exchange rate reforms that began in July 1991, to deepen understanding of the political economy of trade reform.[7] Section 2 describes the original balance of payments motivation for the license raj, as well as the failure of the 1966 devaluation to lead to liberalization. Section 3 discusses the reasons reforms were not undertaken in the 1970s and the reforms in the 1980s were tentative and incomplete even as the country's lackluster economic performance put the import licensing system under greater scrutiny. Section 4 focuses on the key reform moment in July 1991 when a balance of payments crisis created an opportunity for Finance Minister Manmohan Singh to overhaul the country's trade and exchange rate regime—virtually overnight. As Montek Singh Ahluwalia, a key architect of the policy, exclaimed in astonishment: "Trade policy was pretty fundamentally restructured in about 10 hours!"[8] This began a three-year process of reform that led to the relaxation of foreign exchange controls, a significant reduction in quantitative restrictions on imports, and the eventual adoption of a flexible exchange rate regime. Section 5 examines the consolidation of the reforms in which import tariffs were reduced ,the ban on imported consumer goods was lifted, and the convertibility of the rupee was established. Section 6 concludes with some broader political economy lessons about trade reform that emerge from India's experience, particularly the relationship between trade policy and the exchange rate and payments system.

2. The Origins of the License Raj

After achieving independence from Britain in 1947, India adopted a mixed economy/socialist framework that involved economic planning and state-owned enterprises operating alongside a heavily regulated private sector. This approach was championed by Jawaharlal Nehru, the country's prime minister from 1947 until 1964. The government controlled the "commanding heights" of the economy by reserving production

[7] The literature on India's policy reforms in the early 1990s is extensive. For a comprehensive overview, see Mohan (2017a), as well as previous surveys by Jenkins (1999), Mooij (2001), and Virmani (2003). On the trade reforms, see Singh (2017).The industrial licensing reforms were very important and constitute a fascinating story but this paper focuses on the trade and exchange rate policies. For those interested in the industrial licensing reforms, see Mohan (2017b) and Aghion et al. (2008).

[8] https://www.governancenow.com/views/interview/we-need-leaders-who-will-try-explain-the-logic-of-reforms-the-people

in key sectors (such as steel, coal, utilities, and transportation) for public sector monopolies, while private sector activities were severely restricted, supposedly to prevent waste and inefficiency. The stated goal of economic planning was to mobilize the country's limited resources in a way that would promote industrialization via investment in capital-intensive sectors.[9]

India embraced socialism because Nehru and the country's leaders associated capitalism with colonialism, imperialism, and poverty. They had a deep mistrust of foreign trade and investment, a legacy of the East India Company's rule, which was associated with foreign domination, the exploitation of the country's resources, and the oppression of its people. As a result, Nehru and his associates emphasized inward-oriented state-led development, focusing on self-sufficiency and self-reliance. This translated into a trade strategy of import substitution, encouraging domestic production of manufactured goods to reduce dependence on foreign supplies.

Government control of foreign exchange was a key part of this strategy. The Foreign Exchange Regulation Act of 1947 empowered the government and the Reserve Bank of India to control and regulate all foreign exchange transactions. Exporters were required to surrender their foreign exchange earnings to the central bank at the official exchange rate. The government would then allocate the foreign exchange to payments for foreign goods and services on the basis of development priorities.[10] The government prioritized imported

[9] Panagariya (2024) discusses the origins and evolution of Nehru's economic policy. As Kochanek (2007, 412–13) observes: "In the years following independence, India created by the most comprehensively controlled and regulated colonies in the non-communist world. Its development model was based on a system of centralized planning, a mixed economy dominated by a hegemonic public sector and a private sector in which all basic management decisions involving investment, production, technology, location, prices, imports, exports, and foreign capital were controlled and regulated by the state." The Soviet Union was considered a role model for having demonstrated how planning could transform an agrarian economy into an industrial power within a few decades, although India's leaders were committed to democracy rather than authoritarian rule and never adopted central planning.

[10] One early critic of these regulations was Milton Friedman, who argued in a 1955 memorandum to the government of India that "The elimination of the exchange-controls and import and export restrictions is thus a most desirable objective of policy." He elaborated: "The existing structure of exchange-controls, and their associated system of import and export licenses and of discrimination between sources of purchases, seem to this writer a major obstacle to the growth and progress of the Indian economy. They involve waste and inefficiency in the use of foreign exchange. They introduce delay, uncertainty, and arbitrariness into domestic business activities. They impose on officials in charge of exchange control a task that is bound to be discharged most imperfectly, however able and devoted the officials may be" (quoted in Shah 2000, 29–30).

capital goods for domestic investment in its foreign exchange allocation and essentially allowed no imports of consumption goods unrelated to economic development.

A. Foreign Exchange Scarcity and the Second Five-Year Plan (1956–61)

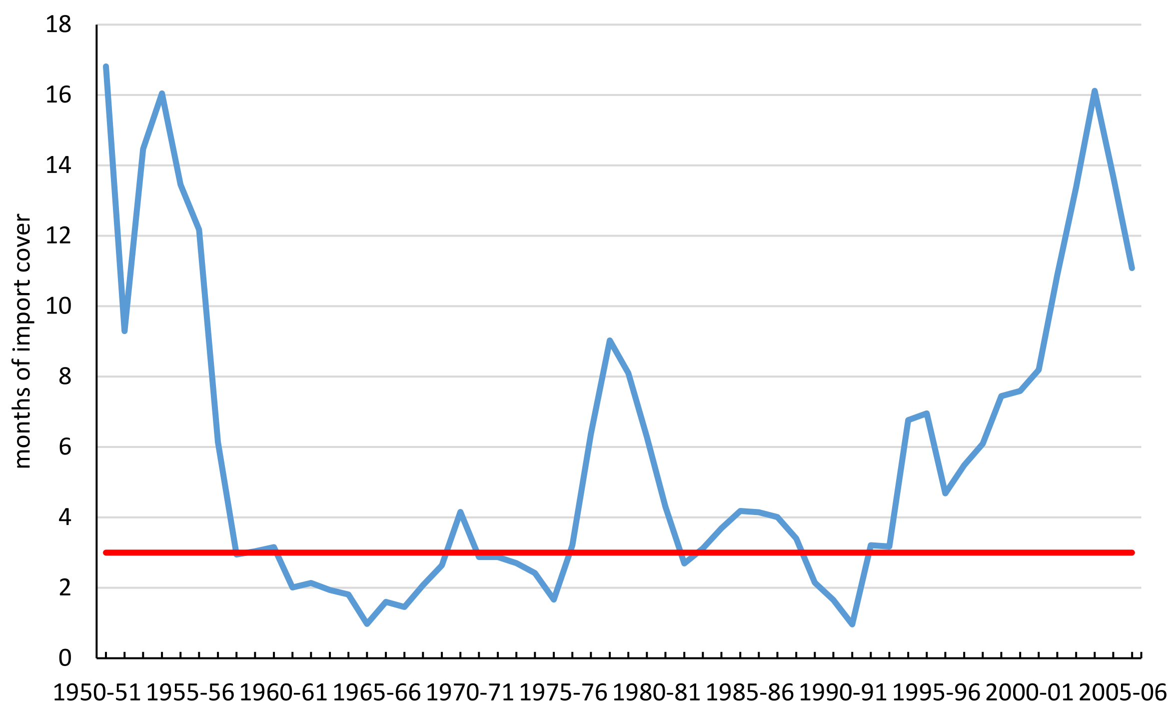
In the early 1950s, India did not face a particularly severe shortage of foreign exchange and import controls were relatively relaxed (Panagariya 2024, 155ff). The country had built up sterling reserves during World War II and the 1949 devaluation of the British pound, to which the rupee was pegged, improved the competitive position of India's exports.

This situation changed with the Second Five-Year Plan (1956–61), whose goal was to increase national income by 25 percent through massive state-sponsored investment in heavy industry.[11] The preparation of the plan drew attention from around the world (Rosen 1985, Engerman 2018). Economists overwhelmingly supported it, seeing no other way to achieve industrialization except by concerted state action. However, the investment spending entailed large fiscal deficits and huge imports of capital goods and equipment. A key constraint was whether the country would have enough foreign exchange, either earned through exports or received through foreign aid, to finance the massive purchases.

The Plan's increase in government spending immediately spilled over to imports and crowded out exports as production was diverted to the domestic market: Imports rose 40 percent in rupee terms while exports were flat, depleting India's foreign exchange reserves. Figure 1 shows that reserves plummeted from enough to finance almost 18 months of India's imports in 1955–56 to just three months in 1958–59. In fact, "the drain on foreign exchange reserves in the first three quarters of the inaugural year of the plan [1957] alone exceeded the total estimated draft for the entire plan period" (Balachandran 1998, 627). India's foreign exchange reserves continued to slide over the next few years, dropping from $1.6 billion in 1955 to just $265 million in 1962 (Bhagwati and Srinivasan 1975, 22).

[11] With Nehru setting the direction, Prasanta Chandra Mahalanobis was the intellectual architect of the plan. A physicist turned statistician who had no training in economics, he believed that rapid industrialization could be achieved with high levels of investment in capital goods production and was confident that scientific and technical knowledge could turn India into a modern economy.

Figure 1 India's foreign exchange reserves, months of import cover, 1950–51 through 2005–06



Note: The red line indicates a foreign exchange reserve level that can finance three months of imports, a rough minimum standard suggested by IMF and other institutions.
Source: Reserve Bank of India, Database on Indian Economy, https://dbie.rbi.org.in/DBIE/dbie.rbi?site=home.

The precipitous loss of reserves forced the government to confront the budget constraint inherent in the balance of payments: India had to either earn more foreign exchange (by increasing exports, receiving more foreign aid, or borrowing from abroad) or spend less foreign exchange (by imposing more restrictions on imports).

For this reason, the stagnation in India's exports in the late 1950s and early 1960s presented a serious problem for the government. The plan depended on export earnings to finance imports of capital goods that were necessary for the investment push, but it did not devote any significant resources to export production. This made the country more dependent on foreign aid as a way of keeping up imports in the face of lagging exports. India was already drawing heavily on foreign donors and official lenders, so additional concessional finance was unlikely to be forthcoming. India could borrow from the World

Bank, International Monetary Fund, and other foreign creditors, but these debts would have to be paid off.

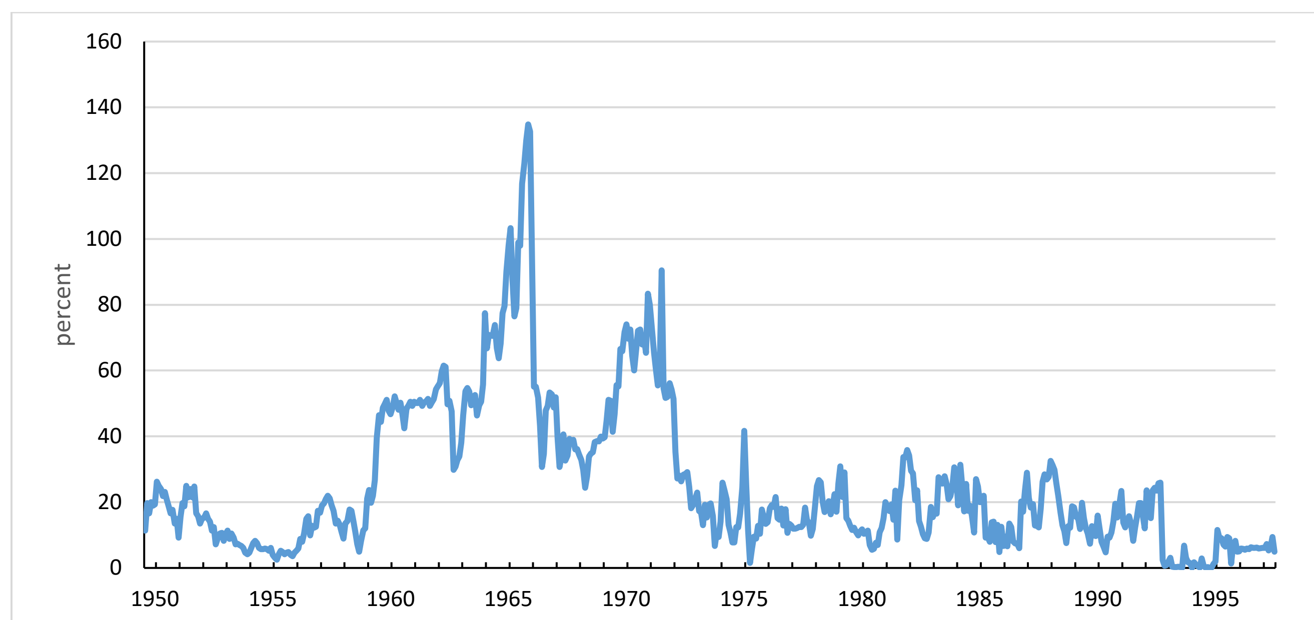
The main policy options were promoting exports and discouraging imports through a devaluation or just discouraging imports through various controls. Nehru rejected devaluation as "fantastic nonsense" (Panagariya 2024, 171). The economic case against a devaluation was elasticity pessimism, the belief that devaluation would fail to boost exports and reduce imports.[12] Therefore, the government was committed to keeping the rupee at the same nominal exchange rate against the British pound and US dollar as in 1949 despite the higher inflation and demand pressures in India. Aside from the stigma associated with a devaluation, keeping the rate fixed would ensure that imported capital goods remained relatively inexpensive.

The decision to rule out a devaluation and maintain a fixed exchange rate had important consequences. To finance new investment, the government expanded domestic credit, which led to higher inflation. With the nominal exchange rate unchanged, the rupee soon became overvalued. One indication of the overvaluation was the rise in the black market premium on the rupee, which increased from 5 percent in the early 1950s to 20 percent in the late 1950s and reached 50 percent in the early 1960s (figure 2).

The overvalued rupee made Indian goods more expensive in foreign markets and contributed to a decline in exports from 7.2 percent of GDP in 1950–51 to 3.7 percent of GDP in 1964–65. The overvaluation made it appear that India's producers had high costs relative to foreign producers and therefore could not be competitive on world markets, although this conclusion was partly an artifact of the distorted official exchange rate. The comparison made government officials and domestic producers extremely fearful of any effort to liberalize trade. The overvalued rupee also increased demand for imports and made the country more dependent on foreign aid to keep imports at high levels.

[12] Elasticity pessimism held that foreign demand for India's exports and India's demand for imports were both inelastic. Imports consisted of critical goods (food, fuel, fertilizer, capital equipment) that India could not do without, so a devaluation would simply make these imports more expensive without inducing much expenditure switching to domestic products. Similarly, foreign demand for India's traditional exports of tea, jute, and cotton would not increase significantly if they were to drop in price, and hence, it was presumed, a devaluation would not increase export earnings.

Figure 2 Black market premium on the rupee exchange rate, 1950–99



Source: Based on *Pick's Currency Yearbook*, various years.

Having ruled out a devaluation, the only way of addressing India's balance of payments problem was through import controls to limit the spending of foreign exchange. The government began by undertaking a budgeting exercise to forecast the amount of foreign exchange that would be available for imports in the coming year. The government could relax or tighten the foreign exchange budget depending upon its forecast of reserves. Once a decision was made about how much foreign exchange was available for allocation, the next step was to determine how much would be distributed to public entities (through canalized imports, those reserved for the public sector monopolies) and to private entities. No entity could import goods unless it had a valid import license, so it was through the licensing system that the government controlled the amount of imports that were allowed to enter the country.[13]

Government entities controlled a majority of imports. The principal intermediaries were 16 public canalizing agencies that were given a monopoly over the importation of

[13] In the 1960s, the shortage of foreign exchange was so severe that import policy was set every six months. The government published a biannual book, "Import Trade Control Policy," known as the Red Book, specifying what imports might be permitted and whose approval was necessary. "All importers bought it, studied its complexities and looked for ways of exploiting them profitably" (Desai 1993, 56).

bulk commodities for resale on the domestic market. These commodities were petroleum, oil, and lubricants, fertilizers, iron and steel, nonferrous metals, edible oils, natural rubber, newsprint, cement, scrap metal, and sugar.

Licenses for private sector imports were determined by the Chief Controller of Imports and Exports at the Ministry of Commerce. Imports were divided into intermediate goods (including industrial raw materials), capital goods, and finished consumer goods. Consumer goods were almost completely banned, as they were considered unnecessary for the country's development. Licenses to import intermediate goods and capital goods were issued depending on the "essentiality" of the imported items and the "indigenous nonavailability" of similar goods. In other words, the government designated certain goods as essential to the country's development goals, but imports were allowed only if there was no domestic substitute product that could take their place. If import licenses were granted, they were available only to the "actual user," which could not resell the rights to import to others. The intent and effect of this policy (subject to some carefully controlled exceptions) were to prevent imports by intermediaries for resale or by final consumers so as to control the end use of imports.

The system was comprehensive and complicated.[14] Goods listed on an "open general license" (OGL) schedule could in principle be imported freely by a qualified "actual user"; those outside the OGL category were reviewed on a case-by-case basis. Most licenses were issued to established importers based on quotas calculated as a fixed percentage of past imports, depending on the level of foreign exchange reserves.

The system created enormous administrative burdens on new firms seeking to acquire imports and gave rise to a host of problems, including corruption, bureaucratic delays, and manipulation (such as fictitious applications to corner all licenses and prevent competition). The entire decision-making process involved multiple government entities, lacked transparency, was extremely time-consuming, and gave a huge amount of discretion to bureaucrats in determining who would receive licenses for which imports.

The use of licensing to restrict imports gave valuable scarcity rents to those fortunate enough to have access to the foreign currency needed to buy imports. They could

[14] Panagariya (2024) gives a clear description of the system.

buy foreign products at world prices but sell them at much higher domestic prices. Anne Krueger (1974) estimated that the rents associated with import licensing amounted to 7 percent of GDP in India in the mid-1960s.[15]

The sharp drop in foreign exchange reserves in 1956–57 meant a dramatic tightening of these import controls. In January 1957, the government started a program of import compression, squeezing spending on foreign goods by reducing the number of licenses issued. Licenses were reduced for over 500 items described as "less essential" to India's economic needs, and licenses for capital goods were given only in cases where the government was satisfied that there would be no appreciable increase in future foreign exchange payments. Foreign exchange was so tight that the allowance for travel abroad (for pleasure and education) was abolished and permission for business trips sharply curtailed. In July 1957, expired OGLs were not renewed and in December imports of many consumer goods were banned and the import of other goods was drastically reduced. These controls continued to be tightened and became a permanent part of India's economic system.[16]

Most economists in India accepted the controls as necessary to address the foreign exchange shortage. The prevailing view was one of export pessimism so that a devaluation would merely increase inflation, deteriorate India's terms of trade, and fail to stimulate traditional commodity exports. Therefore, import controls and foreign exchange rationing seemed to be the only reasonable alternative and the one consistent with the numerical targets in the planning approach. Of course, import controls did nothing to boost exports. The government introduced export subsidies in 1962 to compensate for the overvalued exchange rate, but that did little to improve export performance.

A few economists, such as Jagdish Bhagwati (1962a), advocated devaluation as a way of stimulating exports and reducing imports through the price mechanism and thereby

[15] Mohammad and Whalley (1984) estimated that the rents associated with import licenses and export incentives amounted to 3.8 percent of GDP in 1980–81. The overvaluation of the rupee also led to overinvoicing of imports and underinvoicing of exports—overinvoicing so that importers would receive more foreign currency than the actual cost of goods, and underinvoicing so that exporters would receive more foreign exchange than they reported to the government. This was another way private businesses could capture and retain valuable foreign exchange.

[16] The restrictions were permitted by international trade rules. India justified quantitative restrictions on imports on balance of payments grounds, invoking GATT Article XVIII(b).

avoiding rigid controls on imports. He argued that a devaluation would be a vast improvement over the government's ineffective export subsidy schemes. If that were not possible, Bhagwati (1962b) proposed auctioning foreign exchange as a much more efficient and equitable way of allocating it than by bureaucratic fiat.[17]

India's poor export performance during the Second Five-Year Plan sparked a debate around the world about whether sluggish foreign demand for India's exports was to blame or whether India's policy was responsible. Manmohan Singh, who completed an Oxford doctoral thesis on India's exports in 1962, believed that stagnant export demand could not explain the country's lackluster trade performance. Noting that the government had failed to focus on export promotion in its plans, Singh (1964, 342) concluded that "a devaluation of the Indian rupee cannot be long delayed if India is to recover part of the lost ground in her traditional exports, and also if exports of new manufactures are to be developed in a big way."[18]

B. Toward a Foreign Exchange Crisis

India's fragile balance of payments situation became even more precarious as a result of military conflicts with China (1962) and Pakistan (1965), both of which required large increases in defense spending. During the Indo-Pakistan war, Western donors cut off aid to both countries. The termination of US food aid in June 1965 slashed India's supply of grain

[17] Another advocate of devaluation, Shenoy (1968, 196), wrote: "Indian experience of over two decades has well demonstrated that import restrictions are no remedy to the balance of payments difficulties resulting from inflation and currency overvaluation; such restrictions merely shift demand from import goods and from production for export, to the home market, leaving unaffected the root causes of the trouble." He recommended floating the rupee. Outside of India, Friedman criticized the "artificial and unrealistic exchange rate" (Shah 2000, 33) and argued that the country should adopt a floating exchange rate. In Friedman's view, the problem with quantitative import restrictions was that they led to inefficient allocation because, without a market test, there was no way for government officials to know what was really essential and what not. Friedman also argued that the system of import controls "has done immense harm to the Indian economic and political structure" because it "promotes corruption and the exercise of influence in obtaining import licenses, produces windfall profits to persons lucky enough or influential enough to get licenses, widens the inequality of income and wealth, and undermines public trust in government" (Shah 2020, 15).

[18] A devaluation did not necessarily mean that import controls could be relaxed, Singh (1964, 322) cautioned, because "there is no presumption that the complete restoration of price mechanism in the allocation of foreign exchange will bring about a correct division of imports between consumer goods and investment goods…in accordance with the priorities laid down in the Five-Year Plan."

at a time when a horrific drought in 1965–66 not only reduced traditional exports but increased the need for foreign exchange to purchase food from abroad.

These developments helped push the black-market premium on the rupee to more than 100 percent in 1964–65 (figure 2). By March 1965, India's foreign exchange reserves had dwindled to just one month's imports (figure 1). The government continued to squeeze imports, increasing import duties by 10 percent in February 1965 and to 13 percent by August 1965. Despite an IMF loan, India's situation was increasingly untenable.

By this time, the World Bank had become increasingly concerned about the direction of India's economic policies and the lack of progress in reaching development goals.[19] As leader of the Aid India consortium of Western donors, the Bank wanted to undertake a thorough assessment of India's economic situation before granting additional aid. This decision received "the not very enthusiastic acquiescence of the Indian government," which insisted that any such report be classified (Mason and Asher 1973, 196).

In 1964–65, a World Bank task force led by Bernard Bell, a consulting economist, produced a massive 14-volume report on India's economy and development policy (it was completed in October 1965 but not declassified until 2010). The Bell Report blamed "certain of the policies and practices of the Government of India" for creating obstacles to growth (Bell 1965, 13). Specifically, it stated:

> One of the policies of the Government of India with the most pervasive negative effects on India's economic progress is, in our judgment, its insistence on maintaining the existing overvaluation of the rupee and the associated system of direct administrative controls over imports. The overvaluation of the rupee works directly to defeat the massive import substitution and the export expansion which are essential to achievement of the objectives of the development program.

[19] The Bank had provided India with $1 billion in financing for the Third Five-Year Plan (1961–62 through 1965–66). It had extensive involvement with India, ranging from project lending to policy advice on agriculture to schooling and more. As early as 1963, the World Bank was critical of India's economic policy and argued it should promote exports and liberalize import controls. In its view, the country's inability to finance maintenance imports (those necessary to run the economy) led to substantial unused capacity in Indian industry. On Bank relations with India, see Mason and Asher (1973), Lewis (1995), and Kirk (2010).

Along with the overvalued rupee, the report argued that "the associated system of import controls has been an inefficient allocator of scarce supplies of imports, has failed to maximize the aggregate output obtained from a given supply of imports, has reduced enterprise efficiency, and has had other negative effects." These negative effects included the disincentive to export and the incentive to buy from abroad rather than from domestic producers. "We believe that there would be substantial gains in output if the existing system of direct administrative control of imports were replaced by a system of indirect controls in which price was the allocating mechanism," the Bell Report (1965, 18) concluded.[20]

In early 1966, World Bank President George Woods told Prime Minister Indira Gandhi that major policy reforms, including a devaluation, were necessary if the country was to receive additional foreign aid. The Indian government was divided over how to respond. The planning minister and the finance minister favored a devaluation and trade reforms to ensure the continuation of aid flows.[21] However, Commerce Minister Manubhai Shah, who presided over the import license and export subsidy regime, and political leaders in the Congress Party opposed any devaluation and supported the existing system. They objected to what they saw as foreign interference in India's economic affairs and the compromise of its sovereignty (Mukherji 2000, 383).

With the country's foreign exchange coffers almost empty, Planning Minister Ashok Mehta signed an agreement with the Bank agreeing to a devaluation and liberalization package in exchange for a large multiyear aid commitment. A run on the rupee, partly in anticipation of a devaluation, pushed the ambivalent prime minister into approving the agreement.

On June 6, 1966, India devalued the rupee by 57 percent. The government eliminated export subsidies and reduced some import tariffs, resulting in a net devaluation

[20] The Bell Report (1965, 12) noted that "the total supply of foreign exchange was the most critical limiting factor upon the rate of [economic] growth and that this limitation bore most heavily upon the import of so-called maintenance goods or materials for current production and thereby limited output in all sectors and the expansion of both productive capacity and export as well as of consumption."

[21] I. G. Patel (2002, 104), the government's chief economic advisor in 1962–66, recalled: "The distortions, inefficiency, and corruption bred by a system of rampant and almost riotous multiple exchange rates were there for all to see."

of 22 percent for exports and 42 percent for imports.[22] The devaluation—undertaken on the unfortunate date of 6/6/66—was hugely unpopular and widely attacked as a "great betrayal" and a national humiliation. The political left complained that it had been forced on India and accused the government of capitulating to foreign powers. The All-India Importers' Association described the decision as a "major catastrophe" (Brecher 1977, 22). Two former finance ministers attacked the decision, insisting that it would increase inflation and fail to stimulate exports (Brecher 1977, 19).

Finance Minister Sachin Choudhury defended the devaluation, arguing that it would "quicken the pace of import substitution and expedite the move toward self-reliance," that "our need to increase our exports and foreign exchange earnings has become greater and greater," and that export subsidies had failed (Brecher 1977, 16). But the government was not fully committed to liberalization and under intense domestic pressure soon began to backtrack. Just two months after the devaluation, Commerce Minister Shah reinstated export subsidies and declared that the devaluation was the biggest mistake the country had made since independence. Another drought in 1966–67 kept foreign exchange in very short supply and stalled any further liberalization.

The devaluation was more painful and less effective than hoped. As Panagariya (2024, 217) notes, the devaluation "proved too little too late and also ill-timed since two back-to-back droughts at the time sent the economy into a tailspin and robbed the policy action of much of its power in the short run."[23] It became "a political taboo" for years afterward (McCartney 2009, 220). Those who had favored it were discredited and lost political influence. The episode was seen as the government's capitulation to external pressure, which made conditionality bad politics and any proposed liberalization immediately suspect.

The devaluation ended up disappointing all parties. The World Bank and Western donors believed that India failed to live up to the agreement and open the economy; India

[22] On the devaluation episode, see Bhagwati and Srinivasan (1975), Brecher (1977), Lewis (1995), Mukherji (2000), and Joshi (2023).

[23] The devaluation "failed to deliver on its promise and acquired a bad reputation as a policy instrument. That, in turn, rendered future overt exchange rate adjustment a political liability, and the rupee continued to appreciate in real terms against the currencies of competing countries for a long time after June 1966" (Panagariya 2024, 172).

believed the promised aid never materialized in the amounts expected. Both sides were right. The Bank had implicitly promised but could not guarantee aid from countries such as the United States, and divisions within the Indian government made it unable to commit to a strong package of liberalization measures. Exports did not grow, and aid did not materialize. The episode proved to be an embarrassment for Gandhi and the Congress Party suffered a major electoral defeat in 1967.

C. The System Remains Intact

For a time, the devaluation helped ease the foreign exchange crisis. The black-market premium on the rupee was slashed from 130 percent to 30 percent. In the absence of efforts to control inflation and ensure continued exchange rate adjustment, however, it started rising again.

> By 1969–70, liberalization appeared to have been largely reversed. The import premium was back to 30 to 50 percent on the average, export subsidies had been reinstated and were up to high levels, industrial de-licensing amounted to little, especially because of continued quantitative restrictions (QRs), automatic protection with QRs was still the order of the day, and the picture looked very similar to that which obtained during 1962–63. (Bhagwati and Srinivasan 1975, 30)

Prime Minister Gandhi adopted draconian economic controls after 1969, when she allied herself with the political Left. The government restricted foreign investment and nationalized the banks, as well as coal, steel, and textile firms. The import regime became even more restrictive in the early 1970s amid another shortage of foreign exchange after the oil price shock entailed higher spending on petroleum imports (figure 1). Inessential trade was being squeezed out of the economy: The share of nonoil, noncereal imports fell from 7 percent of GDP in the late 1950s to 3 percent in the mid-1970s (Panagariya 2004, 5).

The leftward policy shift from 1969 to 1974 marked the apogee of the license control regime. India became known as the most autarkic noncommunist country in the

world. Almost every industry was directly or indirectly under government command. The government controlled production through state-owned enterprises and industrial licensing, imports through import licensing, and investment through the banking system.

The Indian economy seemed stagnant in the 1960s and 1970s, stuck at what Raj Krishna called the "Hindu rate of growth" of about 3.5 percent. One analysis estimated that the foreign exchange shortage was a binding constraint on growth, with a shortfall in aid of $6 billion (45 percent of estimated gap), "probably the main single factor in [India's] ability to grow more rapidly" (Chenery and Carr 1973, 467). The focus of most analysts was on filling the gap with additional aid rather than having India earn more foreign exchange through exports. Few voices suggested that India change its internal demand–centered, redistributive growth model. Indian politics cherished the nationalist values of sovereignty, self-reliance, socialism, and a concern for the poor that manifest in emphasis on redistribution rather than growth. Yet, at its low growth rate, the country was unable to put a dent in the country's mass poverty and whatever industrialization it had achieved was hopelessly inefficient by international standards.[24]

A few Indian economists criticized the import licensing system (e.g., Shenoy 1968, Shourie 1966). In a widely noted 1970 book, *India: Planning for Industrialization*, Jagdish Bhagwati and Padma Desai questioned the arbitrary nature of the government's allocation of foreign exchange. No economic criteria were used for making decisions. Instead, "the agencies involved in determining industry-wide allocations fell back on vague notions of 'fairness,' implying pro rata allocations with reference to capacity installed or employment, or shares defined by past import allocations and similar other rules of thumb without any clear rationale" (Bhagwati and Desai 1970, 290). The many additional complaints about the system concerned inordinate procedural delays, administrative expense, inflexibility, lack of coordination among the multiplicity of agencies, absence of competition, high administrative costs, inflexible policies and procedures, bias in favor of industries using imports rather than domestic inputs, automatic protection regardless of costs,

[24] As Pursell (1992, 433–34) noted: "During this period, import-substitution policies were followed with little or no regard to costs. They resulted in an extremely diverse industrial structure and high degree of self-sufficiency, but many industries had high production costs. In addition, there was a general problem of poor quality and technological backwardness, which beset even low-cost sectors with comparative advantage, such as the textile, garment, leather goods, many light industries, and primary industries such as cotton."

discrimination against exports, and loss of government revenue (Bhagwati and Srinivasan 1975, 41).

In addition to its inefficiency, the licensing system gained a reputation for corruption. The 1970s gave rise to "briefcase politics" in which "the government came more and more to resemble a bargain basement, where a rise in sugar prices, and increase in export subsides, and an import license for a scarce material, would be exchanged for cash donations to the party" (Kochanek 2007, 418–19). At the centenary of the Congress Party in 1985, Rajiv Gandhi lamented that "corruption is not only tolerated but even regarded as a hallmark of our leadership" (Kochanek 2007, 420).

By the mid-1970s, it was also clear that other East Asian countries (such as Japan, South Korea, and Singapore) had overcome foreign exchange shortages and were prospering through exports and trade. Yet India's politics were so insular that there was little self-reflection about the country's lagging performance.[25] As Montek Singh Ahluwalia (2020, *x*) recalled:

> From the late 1960s through the '70s, the growth performance of the Indian economy deteriorated while other countries in Southeast Asia fared much better. And yet, surprisingly, there were no voices in India advocating or demanding change—not civil servants, not academics, not the press, and not even Indian industry. They all saw that economic performance was not satisfactory but they did not view this as a consequence of the strategy deployed…. They could see that export performance was consistently falling short of targets, but they did not see the link between poor export performance and the import substitution strategy.[26]

[25] In retrospect, the complacency among Indian economists about the country's situation is remarkable. Shourie (1975) chided economists for making themselves irrelevance to the policy debate and Khatkhate (1977, 259) criticized them for not thinking about alternative policies but rather accepting or justifying the status quo: "The discussion of public policies by the intellectuals thus became a mere ritual to rationalize popular and acceptable ideas, rather than a vehicle for a searching analysis of current policies and for developing independent and superior alternatives."

[26] As Ahluwalia (2020, 42) noted: "The domestic debate was excessively focused on the decline in the rate of investment compared to the mid-60s but there was little attention to whether the control system was promoting inefficiency, in which case, raising investment would not produce the desired results. Even though distinguished Indian economists had pointed out these problems, notably Jagdish Bhagwati, T. N. Srinivasan, and Padma Desai, they had little impact on policymakers, possibly because they had all left the country to take up prestigious academic positions abroad. Economists on the left, who held more sway over

Because there were few outside advocates for reform, politicians never proposed significant policy changes. Politics seemed stacked in favor of the status quo through the iron triangle of vested interests: bureaucracy, business, and politicians.[27] Though burdened by extensive controls, the business community simply adapted to the existing system and tried to exploit it (often through bribery for privileges and exemptions) but not shape it.[28] Labor unions also resisted reforms out of fear that any changes might disrupt employment.

Ironically, initial support for reform was more apparent in the civil service than in the business community, academia, or civil society. In 1978, the Committee on Import-Export Policies and Procedures, led by Commerce Secretary P. C. Alexander, issued a report describing the import licensing system as "highly complex" and the procedures as "cumbersome," and bluntly stating that "a major drive towards simplification of the system is necessary" (Government of India 1978, 68). It did not call for abolishing the licensing system but merely for liberalization in the first two of the three categories of licensed imports: raw material, capital goods, and consumer goods.

The report was issued coincident with a substantial rise in India's foreign exchange reserves in the second half of the 1970s (figure 1). The improvement in the foreign exchange situation came partly from increased remittances from Indian workers abroad as well as quietly introduced exchange rate changes designed to facilitate balance of payments adjustment. In 1972, the rupee was delinked from the dollar and pegged to the British pound, which was now floating and falling in value against other currencies. In 1975, the rupee was pegged to a basket of currencies and continued to depreciate at a slower pace. I. G. Patel, governor of the Reserve Bank of India from 1977 to 1982, adjusted the weights in

policymaking, were arguing that the high growth targets were chimerical and that we should focus instead on achieving poverty reduction through intensification of anti-poverty programmes."

[27] Whenever a policy change was suggested, "it was assailed on the ground that it would impair national self-sufficiency, arrest the progress of import substitution and the public sector, hurt India's poor, and mortgage India's economic future to the rich Western countries. As a result, policy changes were sacrificed to populist slogans, despite the fact that the earlier policies had neither accelerated economic growth nor contributed to national self-sufficiency" (Khatkhate 1994, 1097)."

[28] "The ability of business associations to influence basic economic and development policy was severely limited due to the relative autonomy of the state, the low status of the Indian business community, and the strong belief of political and bureaucratic decision markets in the efficacy of state intervention in the economy" (Kochanek 2007, 414).

the basket of currencies to engineer an effective decline in the value of the rupee without undertaking a big "devaluation" that would draw public notice.[29] This real exchange rate adjustment helped improve export performance and keep the overvaluation of the rupee at reasonable levels (figure 2).

The abundance of foreign exchange allowed some relaxation of import controls but also took the pressure off deep reform. The government introduced greater automaticity of licenses related to industrial raw materials and components. Some capital goods were made duty free for selected industries. Exporters were given replenishment licenses that could be traded and used for restricted imports. In 1978–79, the import regime shifted from a positive list (in principle, nothing was allowed to be imported unless explicitly permitted) to a negative list, wherein all items not specifically restricted or banned were eligible for an OGL category. These steps amounted to tinkering at the margins with a very restrictive system.

3. Tentative Reforms and Brewing Crisis in the 1980s

The Congress Party had ruled India since independence, but lost power in 1977 (after Indira Gandhi had declared an emergency and suspended democratic elections in 1975–77). Despite the change in administration, the first non-Congress government did not propose any reforms of trade policy.

The Congress Party regained power in 1980 and Indira Gandhi returned as prime minister. By this time, there was a growing recognition that India was falling behind other countries because of its poor economic performance.[30] A 1984 government commission

---

[29] As Patel (2002, 170–71) recalled: "When continued inflation and balance of payments difficulties at home necessitated a further devaluation, we achieved this surreptitiously by linking the rupee to the weaker sterling rather than to the strong and strengthening dollar…. For some years, we experimented with a link to a basket of currencies—and here too, we played around with altering the weights in the basket to accommodate the required degree of devaluation. But there were limits also to this kind of manipulation within a basket…. A formal devaluation was a non-starter in those days of fractious and fiercely competitive politics."

[30] Patel (1987, 215–16) recounts the doubts setting in: "Even those actively promoting the earlier policies of the 'fifties have come to realise for some time now that we had underestimated the long-term deleterious effects of controls and had not appreciated sufficiently the potential for a self-serving alliance between political leaders and civil servants on the one hand and captains of industry or the large farmers who have sufficient clout both socially and financially on the other…. The truth of the matter is that there was nothing

chaired by Abid Hussain—who, when he was at the United Nations Economic and Social Commission for Asia and the Pacific, witnessed the economic progress by East Asian countries—proposed changes to the trade regime (Shastri 1997, 36).[31] The Hussain commission report argued that "foreign exchange earnings derived from exports were essential for the process of economic growth as they create the much-needed capacity to import" (Government of India 1984, 81–82), yet it cast doubt about whether India could achieve export-led growth when exports were just 5–7 percent of GDP.

Regarding imports, the report noted that two thirds of foreign exchange expenditures were controlled by the government through canalized imports, meaning import policy affected only one third of spending on foreign goods. The report proposed that tariffs replace licenses over time because tariffs would be more transparent, raise revenue, and have a lower administrative burden. It acknowledged that the lack of foreign competition meant that Indian industry produced low-quality goods at high cost. However, like the earlier Alexander report, the Hussain report gave no sense of urgency and suggested that converting quantitative restrictions into tariffs could not be done immediately because of the fragile state of the balance of payments.

The report did not go far enough for some. "I have never understood why even expert committees have hesitated to recommend a virtual bonfire of the industrial licensing system," I. G. Patel (1987, 218) complained. He continued:

> It has not reduced concentration of economic power or prevented the spread of luxury consumption or checked the wastefulness of unnecessary duplication of effort. On the contrary, it has often sanctified such waste through a desire to spread the favours around and compounded it by nurturing uneconomic scales of production all along the line…. Merely tinkering with the licensing system will not eliminate the power of arbitrary decision; and the suspicion will remain that even

particularly socialistic or egalitarian about the earlier license-permit-subsidy Raj which, in fact, helped to protect the turf of powerful vested interests and heaped on them the additional reward of much unearned rent as recompense for political and financial support."

[31] Hussain noted that "the very fact that Mrs. Gandhi nominated me as chairman was an indication that she wanted a certain kind of [pro-liberalization] report" (quoted in Sengupta 2009, 200).

some forms of partial relaxation will be specially designed to benefit specific parties—whether in response to or in expectation of a quid pro quo.

Patel believed that the motivation for reforming the licensing system might come from its association with corruption rather than its economic inefficiency.[32]

The assassination of Indira Gandhi during the 1984 election campaign led to a generational change in India's leadership as those influenced by Nehru and socialism began to pass from the scene. The young Rajiv Gandhi became prime minister in a landslide victory, bringing with him a new generation of leaders who emphasized modernization and forward-looking policies rather than state-led Nehruvian socialism.[33] "We have stressed self-reliance as the basic tenet of our economic philosophy," Gandhi acknowledged. "But self-reliance has never meant autarky…. With industry trapped in outdated technology we cannot achieve self-reliance" (Shastri 1997, 34). This call was tempered by his statement that "protection must gradually be removed…not necessarily from abroad, but from within"—suggesting industrial reforms to increase domestic competition rather than trade reforms to increase foreign competition.

Yet despite commanding the largest electoral mandate in India's history, Rajiv Gandhi brought only incremental reforms to the system. Prior to presenting his views before the Congress Party in December 1985, he gave a preview to a small group of party members and immediately ran into opposition from the old guard. His "market-friendly ideas were so bitterly opposed there that Rajiv decided to abandon any further references to economic reform" (Sitapati 2016, 74).

---

[32] Patel (1987, 210) argued that "the growing support in India for less interventionist economic policies was—and is—based more on the perceived link between corruption and the exercise of arbitrary power than on the judgement that such policies will promote faster growth or greater equality."

[33] In his first speech as prime minister, in January 1985, Gandhi stated "our industrial policy and our trade policy must be such that they look ahead to taking India into the future with the rest of the world. We cannot pretend to be equal to other countries when we are operating systems which are 20 years or 10 years out of date." He continued: "we are slowly pricing ourselves out of world markets…. we find that Indian companies are not able to compete…because the system is such that…cost efficiency is not there. We find it cheaper to import than to buy our own. It must be changed…from a high-cost economy to a much more competitive economy" (Shastri 1997, 33). Nearly wo decades later Baru (2016, 97–98) observed: "By the mid-1980s there was sufficient intellectual opinion in favour of ending this regime of controls and licenses. It was widely acknowledged that instead of fulfilling the stated objectives of ushering in a 'socialistic pattern of society' or reducing monopolistic and oligopolistic practices, governmental regulations were only perpetuating inefficiency and promoting corruption."

That said, his government was able to relax some import restrictions. The OLG list was expanded from only 79 capital goods in 1976 to 1,170 capital goods and 949 intermediate goods by 1988.[34] But these amounted to incremental reforms designed only to improve the functioning of the system (reducing delays here, mitigating corruption there) rather than to uproot and replace it.[35] Because of political opposition, external liberalization “was not really an objective of (overall) policy” (Kohli 1989, 315).

Yet economic growth began to pick up in the mid-1980s, perhaps because some of the constraints on imports were eased but more directly because of an expansionary fiscal policy. As inflationary pressures developed, with only occasional adjustments in the exchange rate, the rupee continued to be overvalued. By 1988, the black-market premium on the rupee had ticked up to more than 30 percent (figure 2).

The fiscal expansion led to persistent budget deficits of around 5 percent of GDP and the financing of these deficits became increasingly difficult. The government began to increase import tariffs to help fund the extra spending, snatch some of the quota rents captured by importers, and constrain imports as more licenses became automatic. In 1986, the unweighted average tariff was 137.6 percent; the mean tariff on intermediate goods was 123 percent, on capital goods 114.5 percent, and on consumer goods 128.5 percent (World Bank 1989, 14). By 1990, India boasted some of the highest tariffs in the world: the top rate was 355 percent, the simple average of all rates was 113 percent, and the import-weighted average tariff rate was 87 percent, up from 38 percent in 1980–81.

Despite the limited focus on trade reforms, Gandhi’s administration did feature the recruitment of young technocratic economists into the government as advisors. These economists often had experience at the World Bank or IMF and had a reformist mindset.[36]

---

[34] See McCartney (2009) on 1985 reforms. Pursell (1992, 441) notes that “imports that were neither canalized nor subject to licensing (presumably mainly OGL imports) increased from about 5 percent in 1980–81 to about 30 percent in 1987–88.”

[35] At this time, Kohli (1989, 306) notes, “the immediate and most sustained push for liberalization has come from a group of technocratically inclined leaders that has come to control the levers of India’s economic policy making.” Business groups supported domestic liberalization but opposed external opening. And “concerted and direct opposition to the reforms has come from three quarters: the rank and file of the ruling party, the Congress; the left intelligentsia; and the organized working class in the public sector.”

[36] This elite group included Montek Singh Ahluwalia, D. C. Rao, Arun Shourie, Rakesh Mohan, Arvind Virmani, and Shankar Acharya. As Khatkhate (2003, 5350) noted: “During the 1970s, there was, at the World Bank, a slew of young Indian economists, intellectually high-wired, with an inquiring spirit triggered by a decline of planning as ‘the be all and end all’ solution to the economic problems of the low-income countries and ready

The old guard sometimes dismissed these "whiz kids" or "World Bank wallahs" as elitists who lacked concern for farmers or the poor (Kohli 1989, 319).

One of the key young laterals was Montek Singh Ahluwalia, a Rhodes scholar who earned an M.Phil. at Oxford University and worked at the World Bank in the 1970s. He recalled that "By the time I returned to India in 1979, I had acquired extensive experience looking at economies all over the world, the development strategies employed by those countries and how those strategies interacted with political constraints. I was convinced that if we liberalized the economy and gave greater freedom to the private sector, while opening up the economy to import competition, our economic performance would improve" (Ahluwalia 2020, *x–xi*).

Ahluwalia got a first-hand look at how the import system operated when he represented the Ministry of Commerce on the Import Licensing Committee. "The experience confirmed my belief that the system was extremely inefficient and radical reform was crucial" (Ahluwalia 2020, 53). "Yet a substantial body of opinion held that import controls were necessary" whether for balance of payments purposes or to protect industries from foreign competition, and "This belief was surprisingly widespread in academic circles in India despite enough evidence that documented the harm import controls were inflicting" (Ahluwalia 2020, 55–56).

A 1989 World Bank report on India underscored the need for trade policy reforms. It argued that "progress [on reform] has been limited and slow principally because recommendations and statements of general intention on the subject have not been supplemented by a coherent strategy or effective policy guidelines" (World Bank 1989, 124).[37] The World Bank (1989, 124) proposed a roadmap for reform that included "the

---

to challenge mainstream thinking on development economics. Most of them, if not all, returned to their country to be involved in economic policymaking, being enriched by deep insights into development process acquired by their work on diverse countries at the World Bank. The lack of insularity in their thinking enabled them to see India's problems in a broader perspective and the real-world context and counter some of the ingrained habits of many Indian economists, both in academia and the government, brought up in the interventionist environment. With all their policy work in India and their academic reputations they became an elite intellectual force to counteract the influence of the entrenched but starry-eyed interventionist economists who held sway until 1990s." Shastri (1997, 39) similarly observed that "The 'laterals' with World Bank backgrounds bring to India their cross-country experience and knowledge of how similar reform programs have been introduced and operated elsewhere."

[37] Furthermore, the report noted, there was no stated policy "on whether there should be any upper limit to the excess of domestic costs and prices over world prices. Correspondingly, there are no guidelines as to what

systematic removal of quantitative import restrictions (QRs) on manufacturing goods within a pre-announced period of (say) two years" and "a greatly simplified tariff structure with most tariffs falling within a range of about 30% to 70%, a maximum of about 80% and a minimum of about 20%."

The World Bank (1989, 166) stated that a key obstacle to these reforms was the "widespread belief that easing of these policies would inevitably involves the expansion of imports and should therefore only proceed to the extent that the balance of payments situation allows increased imports." However, the Bank noted, the rationalization of the import regime (replacing QRs with a simplified and uniform tariff structure) did not mean that aggregate imports would increase, and even if so then an exchange rate adjustment would be appropriate. For this reason, the Bank (1989, 166) recommended that "the exchange rate should be managed in such a way that exports remain profitable, and balance of payments difficulties do not abort the liberalization process."

Rajiv Gandhi lost the 1989 general election, and the opposition leader V. P. Singh took over as prime minister. In March 1990, Singh visited Malaysia and was startled by the country's rapid economic progress since his visit a decade earlier. He asked Ahluwalia, his economic aide, how Kuala Lumpur had been transformed so quickly into a modern city. Ahluwalia (2020, 108) replied, "perhaps a little cheekily, that they [the Malaysians] had been much more forthright in undertaking economic reforms whereas we seemed to lack the will." The prime minister asked him to come up with a reform agenda.

In May 1990, Ahluwalia produced a 34-page memorandum, "Towards a Restructuring of Industrial, Trade, and Fiscal Policies."[38] It began by saying that "the case for [economic] liberalisation is reinforced by the fact that virtually all the better-performing developing countries have been engaged in a similar process, and almost all have carried it substantially further than we have," which he attributed to the desire among India's political class to avoid controversy. Ahluwalia outlined five reform priorities:

---

such an upper limit should be or as regards the maximum effective protection which should be made available by the level and structure of tariffs. In their absence, day-to-day decisions on import licenses and tariffs have understandably continued to rely principally on established precedents and criteria, and largely to reflect protectionist lobbying interests" (World Bank 1989, 124).

[38] The document is available at: https://the1991project.com/public-repository/1991-documents/may-1990-towards-restructuring-industrial-trade-and-fiscal and also accompanies Ahluwalia (2016).

improving macroeconomic policy, modernizing the public sector, scaling back industrial licensing, reducing protection for domestic industry, and opening to foreign investment.

On trade, Ahluwalia noted that "high rates of protection for the industrial sector whether through tariffs or through industrial licensing will greatly limit our ability to penetrate export markets in a big way." The heavily protected domestic market was more attractive to Indian firms than the highly competitive export market, putting the country at a competitive disadvantage in international markets. While those disadvantages could be partly offset by export subsidies and tax rebates, such policies were open to abuse and had the disadvantage of promoting exports that use duty-free imports rather than high-cost domestic inputs.

Ahluwalia proposed shifting from import licensing to tariffs as a way of protecting domestic industry, followed by a phased reduction in those tariffs.[39] While imports of consumer goods would remain banned, the average duty level on raw materials and capital goods could be brought down to 30–40 percent by 1994–95. He noted two political constraints on the process: the opening should not disrupt Indian industry, and the government should not lose significant amounts of revenue. The first constraint could be overcome by a depreciation in the exchange rate and the second by increasing other taxes.

Ahluwalia emphasized that "the measures needed to restore macroeconomic balance are a precondition for the success of the rest of the package…. Failure to restore the macroeconomic balance will mean continuing pressure on the balance of payments which will make it impossible to undertake the trade liberalization." The immediate concerns about the impact of import liberalization on the balance of payments could be addressed by "issuing licenses to exports as a percent of the value of their exports that can be used to import any item on the permissibles list." The licenses would be tradable, and the premium on them would provide an additional incentive to export. That way the total amount of imports would be fixed but there would be flexibility in sourcing imports in contrast to the inflexibility of the license system.

[39] This approach of replacing quantitative restrictions with tariffs had been recommended by the 1964–65 Bell Mission, the 1984 Hussain Committee, the 1989 World Bank study, and numerous IMF reports. Ahluwalia did not claim originality for these ideas but said they had never been put together in a holistic package. https://www.governancenow.com/views/interview/we-need-leaders-who-will-try-explain-the-logic-of-reforms-the-people

The memorandum circulated widely in the government and became known as "the M Document."[40] It generated enormous controversy when it was discussed over a two-day meeting of the committee of secretaries in June 1990. Every ministry found something objectionable in the document[41]—the Ministry of Commerce wanted to retain power over licensing, the Ministry of Finance didn't want to give up import controls to regulate the balance of payments, the Ministry of Industry didn't want to expose domestic producers to foreign competition, the Department of Revenue feared losing revenue. The M Document was tabled without further action planned. Few could have anticipated that just one year later it would be the informal blueprint for major reforms.[42]

Two months later, in August 1990, Iraq's invasion of Kuwait unleashed a series of shocks that put India's balance of payments under severe pressure and set the stage for the 1991 reforms. The invasion led to a tripling of world oil prices, causing India's import payments to soar; a collapse in remittances from Indian workers in Kuwait; and a decline in exports to the Middle East. Thus, India's foreign exchange inflows fell while its import spending increased, forcing the government to burn through foreign exchange reserves to prevent the rupee from collapsing.[43] India's foreign exchange reserves plummeted from $3.1 billion in August 1990 to $896 million by mid-January 1991, enough to cover just two weeks of imports. As figure 1 shows, this was as extreme a situation as 1966 had been.[44] The government allowed the rupee to depreciate but not nearly enough to eliminate the black market premium or reduce the payments imbalance.

If a devaluation was ruled out, India's only options were to borrow more from foreign creditors or import less through tighter import controls. The government decided

---

[40] Ashok Desai gave the memorandum its name for Montek, its author. The document was leaked and published by the *Financial Express* newspaper in July 1990. It was later published in the *Economic and Political Weekly* (Ahluwalia 2016).

[41] Ramesh (2015, 3n4) says the memorandum "led to a furor within the V. P. Singh cabinet since neither the Commerce nor Finance Ministries were particularly enthusiastic about the agenda. The Planning Commission was also hostile to it."

[42] "If there is one single document that contains the economic reform programme of the Rao government and of subsequent ones as well it is this 'M' paper" (Ramesh 2015, 3n4).

[43] See Cerra and Saxena (2002) on the causes of the 1991 crisis.

[44] The foreign exchange crisis was compounded by the anticipation of a devaluation, as exporters began to delay remitting export earnings to get a more favorable rate while importers accelerated payments for imports before they became more expensive. This behavior put further pressure on foreign exchange reserves.

to do both. In October 1990, Singh authorized negotiations for an IMF loan, but then lost a confidence vote in parliament. He was succeeded by Chandra Shekhar, who opposed turning to the IMF. Yet other private creditors were reluctant to lend because India's fiscal deficit had reached 10 percent of GDP and they were worried about whether the country's debts could be serviced. In March 1991, Standard & Poor's downgraded India's sovereign rating to BBB— for long-term credit risk, and A— for short-term credit risk. The situation was so dire that the government began selling gold reserves, a virtual taboo in India, to avoid default and ensure external payment obligations were met.[45] As Deepak Nayyar (2017, 42), an advisor in the finance ministry, noted: "The prospect of default hung over our heads like the sword of Damocles." The government resumed negotiations with the IMF after a bizarre scheme to raise money from the Sultan of Brunei failed.[46]

Import compression was also deployed to stem the loss of reserves. In July 1990, the government tightened licensing requirements for imports of capital goods and reduced the amount of foreign exchange made available for raw materials and industrial components.[47] In October, it imposed a 50 percent advance import deposit requirement on all noncapital goods imports. This amount was ratcheted up to 133.3 percent in March 1991, and then to 200 percent in April. In May 1991, the Reserve Bank restricted the financing of imports by imposing a 25 percent interest surcharge on bank credit for imports.

These stringent measures shut out almost all nonoil, nonfood imports. Whereas nonoil imports in October–December 1990 were 16.8 percent higher in dollar terms than a year earlier, they were 23 percent lower in April–June 1991 than a year earlier. The problem with the austerity inherent in an import compression policy was that reducing imports of raw materials and intermediate goods would also reduce domestic output and

[45] In July 1991, India shipped 47 tonnes of gold to the Bank of England to raise another $405 million. Aside from the humiliation of actually having to ship the gold abroad to secure the loan, rather than just pledge it, gold plays an outsized role in Indian culture and the idea of selling it was a national humiliation.
[46] "The resistance was transformed into an acceptance based on the realization that India was close to default on its international payment obligations and that the IMF was needed not simply as a lender of last resort but also for its imprimatur, essential to restore international confidence" (Nayyar 2017, 42). By end-1990, when reserves could cover only three weeks of imports, India negotiated access to $1.8 billion from the IMF's CCFF (to cover oil imports), the first tranche of a stand-by arrangement with very low conditionality attached to it.
[47] As Ahluwalia (2020, 120) notes, "the method of import compression was entirely arbitrary" and sometimes included delaying the issuing of permits.

even exports. Import compression was being carried out to such an extent that it began to disrupt production and even reduce employment (Reserve Bank of India 2013, 449).

The crisis led to renewed discussions in the government about the country's trade policy. Ashok Desai (1999a, xi) wrote a memorandum on trade policy for Manmohan Singh, then an advisor to Prime Minister Shekhar, suggesting that import licenses—which were "extremely paper intensive, took months to issue, created enormous corruption, and did great harm to exports"—should be abolished. He proposed that the government buy a certain proportion of export earnings at a fixed exchange rate and issue import replenishment certificates to exporters, similar to the proposal in the M Document. These tradable import licenses could be used to import anything and create a partially free market in foreign exchange. "The certificates would serve both as carriers of an export subsidy and as import entitlements, without the red tape of the Chief Controller of Imports and Exports" (Desai 1999a, xi).

Before the government could present a budget in the spring of 1991, it fell in a no-confidence vote. Parliament was dissolved and a caretaker government limped on until elections could be held. In late May 1991, Rajiv Gandhi was assassinated during the election campaign. This tragedy and the ongoing balance of payments crisis led to a cascade of events that produced the complete restructuring of India's trade and exchange rate policy.

4. The Reform Moment: July–August 1991

A. The New Government

After weeks of political wrangling in the Congress Party, a compromise candidate, P. V. Narasimha Rao, was pulled out of semiretirement and selected as party head. Rao was viewed as a weak, transitional leader who had no political base within the party.

Although he vowed to carry out Rajiv Gandhi's program, Rao was an unlikely reformer. An ardent socialist, he had supported Indira Gandhi's leftist policies in the 1970s. Congress's 1991 election manifesto gave little hint that sweeping reforms were in store, let alone a dismantling of Nehruvian socialism. However, the Congress Party (1991, 24) manifesto did pledge to "tackle the problem of the current foreign exchange crisis by

pursuing vigorous export promotion, effective import substitution, establishing an appropriate exchange rate mechanism and increasing productivity and efficiency in the economy."

Congress managed to win the mid-June election, but only as a minority government, putting it in a fragile position. Upon taking office on June 20, Rao met with Cabinet Secretary Naresh Chandra, who gave him an eight-page briefing memo on the economy. The bracing note described the country's dire fiscal and balance of payments situation and explained the need for fiscal discipline and trade and industrial licensing reform. After reading it, Rao asked: "Is the economic situation that bad?" Chandra replied: "No, sir, it is actually much worse" (Ramesh 2015, 9).[48]

To avoid the impression that international pressure was forcing such policies on India, Chandra recommended that Rao implement reforms before seeking further IMF assistance.[49] On the evening of June 22, the prime minister addressed the nation in a speech drafted by Chandra. "The economy is in a crisis," Rao stated. "The balance of payments situation is exceedingly difficult…. The government and the country cannot keep living beyond their means and there are no soft options left" (Baru 2016, 88).

Yet it was still not clear how the new government would handle the situation. Some advisors argued that a devaluation should be avoided at all costs, while others insisted that it was inevitable and an opportunity for reform.[50] The outcome hinged on which ministers were selected because, as Rao confessed to Ramesh, "I don't understand economics" (Sitapati 2016, 102).

---

[48] Baru (2016, 76) reports that Chandra said, "Sir, it is slightly worse." According to some accounts, the briefing note made a big impression on the prime minister. "By the time he had finished absorbing the document," Sitapati (2016, 103) reports, "the protectionist Rao had given way to the pragmatic Rao."

[49] In its 1991 Article IV consultation, the IMF (1991, 25; emphasis added) "outlined in detail the types of structural reforms that are most urgently needed: liberalization of industrial licensing requirements, improvements in exit policies, an easing of restrictions on direct foreign investment, simplifying and increasing the transparency of the exchange and trade system. *In this regard, the staff views steps to replace quantitative restrictions with tariffs and to simplify the structure of tariffs as particularly important….* The new Government has not yet formulated a program for structural reform, but it has indicated in its policy statement to the Fund that its efforts will be broadly along these lines. These policies will be critical to securing further Fund support for 1991/92."

[50] As Baru (2016, 89) says: "Opinion was already divided in India between those who sought to tackle the balance of payments crisis through 'import-compression' and those who felt the crisis was an opportunity to open up the economy and seek export-oriented investment that would increase India's export earnings."

Rao desperately needed a reputable finance minister who could restore confidence with the international financial community and negotiate credibly with the IMF and other creditors. After I. G. Patel declined the position, Rao asked Manmohan Singh, a distinguished economist and civil servant who was highly respected across the political spectrum. Singh defied ideological description and had a wealth of experience at the highest levels of government, as finance secretary in the Finance Ministry (1976–80), governor of the Reserve Bank (1982–85), and deputy chair of the Planning Commission (1985–87).

Although his 1962 Oxford thesis blamed India's policies for the country's lackluster export performance, Singh gave little outward evidence of a deep commitment to reform in the years since.[51] As a civil servant, he was usually not in a position to speak out on policy matters, but he never lost sight of the need for India to increase its exports and foreign exchange earnings. When asked in March 1991 whether India should approach the IMF, Singh replied: "In the short run there is no alternative. We are very vulnerable at the moment. But an IMF loan is no solution either. Ultimately India has to raise its own resources. We have to step up our exports" (quoted in Ramesh 2015, 17).

In an April 1991 commencement address, Singh described the problems with import controls and proposed replacing quantitative restrictions with tariffs, making the rupee convertible on foreign exchange markets, and setting the exchange rate to reflect the scarcity value of foreign exchange (Ahluwalia 2020, 128–29).

When Rao asked him to be finance minister, Singh said that he would need to have the prime minister's full backing to tackle the country's economic problems. "You will have

---

[51] "Singh made the years of liberalization appear acceptable, largely because he defied ideological labels, and could, if anything, only be called moderately left-of-centre," Ramesh (2015, 145) observed. "The finance minister may have lacked political standing, but he had unparalleled moral authority, apart from unsurpassed intellectual gravitas. His phenomenal personal reputation for simplicity and his non-threatening style helped sell the bitter pills of devaluation, gold sales, subsidy cuts and whole-scale industrial deregulation." In a review of Bhagwati and Desai's 1970 book *India: Planning for Industrialization*, Singh (1972, 415–16) did not wholly endorse the implications of their analysis: "The system of direct controls as it has evolved in this country has many wasteful features but that is hardly convincing evidence that the country would necessarily have been better off under a different system. That the present system of planning in India scores badly when compared with the working of an idealized price system is hardly a sufficient proof that the country ought to dismantle all direct controls." Furthermore, he warned that "the benefits of relying on price mechanism and the costs of physical controls are liable to be exaggerated…. it would be much too presumptuous to claim that modern neoclassical economics has answers to all the economic problems in all parts of the world and that an efficient framework is always one based on the principles of economic liberalism."

a free hand," Rao agreed, adding: "If the policies succeed, we will all take the credit. If it fails, you will have to go" (Sitapati 2016, 113).

As finance minister, Singh came to head the "dream team" of economic reformers in the new government. The new commerce minister was P. Chidambaram, a lawyer and a self-described former socialist who changed his mind after earning an MBA from Harvard Business School.[52] He completely supported the reforms and was assisted by Commerce Secretary Ahluwalia. Prime Minster Rao kept the Ministry of Industry portfolio for himself, aided by reform-minded economists such as Rakesh Mohan, who had written a key paper on industrial delicensing in 1990.

Finance and Commerce focused on the trade reforms, Finance and the Reserve Bank on the exchange rate reforms, and Industry on the industrial licensing and foreign investment reforms. The reform efforts were overseen by Amar Nath Varma, the principal private secretary in the prime minister's office. Varma had previously been industry secretary and had worked on industrial reform proposals with Mohan. He directed a steering committee on economic reform in the prime minister's office (known as the "cockpit of reform") that met every Thursday over the next five years to ensure that policy was executed and bureaucratic resistance overcome.

[52] Chidambaram had no formal training in economics but took one class from Simon Kuznets at Harvard. "Let me tell you quite frankly, when I went to the Harvard Business School I was more or less a committed socialist. Even in the Harvard Business School I don't believe I quite gave up my admiration for socialism, although remaining in the U.S. for two years exposed me to another model, which appeared to be more successful, which appeared to have brought jobs and incomes and prosperity to much larger proportion of people" (quoted in Kapur 2004, 372). "When I came back to India after Harvard Business School I started as a lawyer and as a trade union leader. Now, I had a very special advantage—I was looking at the way government worked as a lawyer, challenging government action in courts. I was also looking at the working of Indian companies from a trade union point of view. And I found that enterprise was stifled, [there was] rampant corruption, efficiency was penalized, growth was crippled and because of this protective market, the Indian people were being given shoddy goods and services at very high prices. Only rent seekers flourished. The system simply was not creating enough jobs. There was not a sharp rise in incomes as we thought it would have, and the most disillusioning aspect of it was the rampant corruption in government. Every license, every permit, every amendment to that was procured by corrupt means." https://www.pbs.org/wgbh/commandingheights/shared/minitext/int_pchidambaram.html

B. Devaluation

Upon taking office, Singh wrote to the prime minister and said that a devaluation was necessary and unavoidable. He proposed that this action be taken without consulting the cabinet to avoid needless debate. Rao was "horrified" by the prospects of a devaluation but accepted the advice.[53] The plan was for the Reserve Bank to execute a two-step devaluation over two days.

On July 1, in a first step, the rupee was devalued by about 9 percent. Although the markets took the news in stride, the public outcry gave Rao second thoughts about the second step. On the morning of July 3, he asked Singh to postpone the second devaluation. Singh resisted but relented, calling the deputy governor of the Reserve Bank only to be told (to his relief) that the implementation of the second devaluation of 11 percent was already underway and could not be reversed (Ahluwalia 2020, 132). In all, the two devaluations pushed the exchange rate from 21.1 rupees per dollar to 25.6 rupees per dollar, about an 18.7 percent decline in value.

The devaluation "caused a furor in Parliament and great sullenness within the Congress [Party] itself," Ramesh (2015, 38) recalls. But Singh offered a strong public defense of the action:

> We, in this country, live under certain illusions—economists have been responsible for it—that devaluation is something immoral, anti-national…. Our people—the economists, the journalists, the politicians—somehow believe that devaluation is sinful and dishonorable. It is nothing of that sort. The exchange rate is just a price. If you are in the business of selling, your price has to be competitive.[54]

In a July 9 national address, the prime minister also defended the change in the exchange rate (the word devaluation was not used), saying that it

---

[53] A policy advisor in the prime minister's office, Ramesh (2015, 37) found the prime minister very upset about the prospect of a devaluation and "completely unconvinced" by the argument. "He belonged to a generation that believed that the 6 June 1966 devaluation forced upon Indira Gandhi was a political and economic disaster," Ramesh (2015, 35) writes.
[54] See Ramesh (2015, 38) and Singh (2014, 374).

was done so that we can export more…. This will not only earn us foreign exchange but also create new employment at home. And why do we need to earn foreign exchange so badly? Not to import luxury items but to buy commodities like kerosene and diesel, fertilisers, edible oil, and steel.

The adjustment in the exchange rate will discourage the import of nonessential goods and will therefore save foreign exchange for the imports of essential goods of consumption. It will also end uncertainty about the future of our currency and will encourage nonresident Indians to send more money to be deposited in their accounts in India.

My objective is to make India truly self-reliant. Self-reliance is not a mere slogan for me. It means the ability to pay for our imports through our exports.

Rao also called attention to the collapse of communism in Europe and the Soviet Union, saying that "India has much to learn from what is happening elsewhere in the world."[55]

C. Trade Reforms in 10 Hours

The policy actions of July 3 were far from over. Singh called Ahluwalia at the Ministry of Commerce and told him that the government was going to announce the elimination of export subsidies. The cash compensatory support (CCS) program, which was administered by the Commerce Ministry, had been introduced to compensate exporters for the overvalued rupee but was no longer needed after the devaluation.[56] Abolishing the export subsidies would reduce the fiscal deficit by about 0.5 percent of GDP, a necessary part of the fiscal adjustment.

---

[55] "Many countries are bringing in far-reaching changes. We find major economic transformation sweeping large countries like the Soviet Union and China, as well as small countries in Eastern Europe. There is a change in the outlook, a change in the mindset everywhere. India too cannot lag behind if she has to survive, as she must, in the new environment" (Government of India 1993, 155-56). See also Ramesh (2015, 68–69) and Baru (2016, 94–95).

[56] The devaluation of the rupee was nearly 20 percent, while the CCS subsidies ranged from 5 to 25 percent, with an average of 12.5 percent, yielding a net devaluation of 7.5 percent for exporters.

Ahluwalia briefed Chidambaram about the news, which was certain to generate complaints from exporters.[57] Ahluwalia (2020, 135) suggested this criticism could be avoided if the government introduced "Exim scrips" as compensation. Exim scrips were an "enlarged replenishment license entitlement" that would be given to exporters in exchange for their foreign exchange earnings. The lack of an official market in foreign exchange made it impossible for firms to import without government permission. The tradable scrips could be used to import restricted items, thus making them quite valuable and constituting an additional incentive to export.[58] Since Exim scrips would be issued only from actual exports, they automatically linked imports to exports and ensured that the trade balance would not deteriorate and there would be no additional pressure on official reserves. Nonexporters could purchase the tradable entitlements at their market price, the first step to establishing an open market in foreign exchange and the freedom to import without a government license.[59]

Chidambaram immediately saw the benefit of linking the Exim scrips to the elimination of the CCS. Any drastic change in import policy, however, usually required extensive vetting by the ministries and the approval of the commerce minister, the finance minister, and the prime minister, all of which usually took many weeks if not months of meetings and consultations. Given the urgency of the situation, they decided to push the issue to the finance minister directly and then to the prime minister.

Chidambaram and Ahluwalia suggested to Singh that the scrips proposal could be announced at the same time as the second devaluation and the elimination of the CSS. Over

---

[57] "The politician in Chidambaram balked at the idea [of withdrawing the subsidy]. Singh had to then tell the commerce minister that the prime minister wanted the orders issued the same day" as the second devaluation, Baru (2016, 94) reports.

[58] Exim scrips were discussed in the M Document, but the idea was first mentioned in an article by Prakash Hebalkar in *Business India* a few years earlier, where it was picked up by Reserve Bank Governor Rangarajan and Ahluwalia (Ahluwalia 2013, 59). A report for the Planning Commission in 1990 also proposed a super-REP (replenishment license): tradable certificates issued to exporters and usable for any imported good that required a license (Desai 1999b, 30–31; Sitapati 2016, 121).

[59] Ahluwalia (2013, 56) explains the benefits of the scrips: "These would be used for a face value of 30 percent of the value of exports (40 percent for some products) and could be used to import any item up to this value from the restricted imports list. Being tradable, exporters could sell the license, and the price received would reflect the premium people were willing to pay to import restricted items. The sales proceeds would improve export profitability without imposing a direct burden on the budget. Since the total value of Exim scrips would be linked to exports, there was no danger of a flood of imports—excess demand for imports would simply lead to a higher premium on the license. The move constituted a genuine import liberalization since it would eliminate the need to issue import license for items on the restricted list."

the opposition of Finance Ministry officials, Singh asked if the Commerce Ministry would be able to work out the proposal quickly enough to get the prime minister's approval that evening because the announcement of the second devaluation could not be delayed.[60] Chidambaram and Ahluwalia said they would return with the file within a few hours. As Ahluwalia (2013, 58) recounted:

> We returned to the Commerce Ministry and worked feverishly to outline the proposals, with Chidambaram personally finalizing all the details. The file was signed by the two Ministers, in quick succession, and then taken by them that very evening to Prime Minister Narasimha Rao. Chidambaram explained the proposal to the Prime Minister who asked Dr. Singh whether it had his approval. On receiving confirmation, the Prime Minister promptly signed the file (there was no detailed examination by the PMO [prime minister's office]).[61]

A process that would normally take weeks if not months was completed in a few hours. As Ahluwalia (2020, 136) put it: "A major step in liberalizing trade policy was completed in the space of about eight hours!"

The next day, July 4, Chidambaram announced the abolition of the CCS and the introduction of the Exim scrips. Of course, this initial reform had a limited impact because a majority of imports were canalized (imported only by public sector agencies) or banned (imported consumer goods). But the reform was critical for firms using or wanting to purchase imported capital goods and raw materials. The prime minster also referred to this new policy in his July 9 national address:

[60] "The reforms we proposed did not have the support of the senior bureaucracy in the Ministry of Finance, but this was not allowed to lead to interminable inter-ministerial consultations. Finance Minister Manmohan Singh understood the issue and was willing to overrule his officials. And PM Rao trusted his finance minister!" Ahluwalia (2020, 137) recalled.

[61] Chidambaram recalls the events the same way, saying that Rao "wasn't too concerned about the details as long as both of us were in agreement." https://indianexpress.com/article/india/india-news-india/we-are-still-not-a-fully-open-competitive-economy-too-much-government-interference-p-chidambaram-2888514/ Ramesh (2015, 63) confirms that "The PMO [prime minister's office] did not take any direct interest in designing these changes" to trade policy.

> After changing the value of the rupee, we undertook a major overhaul of the trade policy. Our message was simple—you cannot import if you do not export. We cut down on export licenses so that our exporters do not face hurdles. We eliminated subsidies so that the money saved could be better deployed in the welfare and employment programmes (Government of India 1993, 155-56; Ramesh 2015, 68).

The capstone of the eventful month was Finance Minister Singh's budget speech on July 24, 1991, in which he patiently explained the origins of the crisis, especially as it related to fiscal policy, and the necessity of spending reductions and subsidy cuts (para 11):

> The past four decades have witnessed import substitution which has not always been efficient and has sometimes been indiscriminate. The time has come to expose Indian industry to competition from abroad in a phased manner. As a first step in this direction, the Government has introduced changes in import-export policy, aimed at a reduction of import licensing, vigorous export promotion and optimal import compression. The exchange rate adjustments on 1st and 3rd July 1991 and the enlargement and liberalisation of the replenishment license system constitute the two major initial steps in the direction of trade policy reform.[62]

On trade, he defended the steps that had been taken as representing "the beginning of a transition from a regime of quantitative restrictions [of imports] to a price based mechanism."

Earlier that day, the government announced another radical reform: the end of industrial licensing and the raising of the ownership limit on foreign investment. This marked the end of the domestic license raj and firms would no longer need government permission to increase capacity or start production in new goods.[63] The reform was critical

[62] Budget 1991-92 Speech, 24th July, 1991, Part A; https://www.indiabudget.gov.in/doc/bspeech/bs199192.pdf

[63] See Ramesh (2015) and Mohan (2017).

to providing a supply-side boost to production that would reinforce the move toward greater export orientation.

What had the Rao government done in July-August 1991? They devalued the rupee, eliminated export subsidies, reformed the import licensing system, and deregulated industrial controls. The breadth and speed with which the government acted to overturn two generations of established economic policy was astounding.[64]

Why did Singh decide to embrace such sweeping reforms? In an August 1991 interview, he said:

> I used to be in favour of gradual change. But I look around the world and realise that time is not on our side. There has been a complete collapse of the command economies of Eastern Europe. This country will be marginalised if we don't move forward at a breathtaking pace. I'm convinced that if there has to be structural change, it must be done quickly. That's how my views have changed.[65]

In August 1991, Chidambaram made a detailed statement on trade policy in the Lok Sabha. He too explained that the country could not ignore the changes taking place in Eastern Europe and that India "can grow faster only as part of the world economy and not in isolation. Our trade policy must therefore create an environment that will provide strong impetus to exports and render export activity more profitable."[66]

> It is only through the rapid growth of exports that we can expect to overcome our persistent balance of payments problems, restore international confidence and achieve true self-reliance with an expanding economy. The reform also has to aim at creating strong incentives to economize on imports but without resorting to

[64] As Sitapati (2016, 130) put it: "In a single day, Narashimha Rao and Manmohan Singh had done more than anyone to dismantle the three pillars of the license raj: monopolies for the public sector, limits on private business, and isolation from the world markets."

[65] Quoted in Ramesh (2015, 186).

[66] Statement by Minister on Trade Policy, August 13, 1991 [Sravana 22, 1913], 498–517. Available at https://drupal.the1991project.com/sites/default/files/2023-08/1991_%20Statement%20by%20Minister%20on%20Trade%20Policy.pdf.

proliferation of licensing controls which promote delay and inefficiency, spawn arbitrariness and stifle enterprise.

Chidambaram also announced that the "medium term objective of the Government is to progressively eliminate licensing and quantitative restrictions on capital goods and raw materials/components" and reduce the scope of public sector monopolies in exports and imports. In April 1992, he specified additional trade reforms: the restricted list was renamed the negative list and considerably shortened, import conditionalities were reduced, the highest tariff was lowered from 355 percent to 100 percent.

Singh and other officials repeatedly explained these decisions as a choice between import repression and export promotion. They reframed the word "self-reliance"—a stock phrase in Indian politics dating back to Nehru and independence—not to imply autarky but rather the ability to pay for the country's imports through its own exports without relying on foreign aid or borrowing.[67]

In his February 1992 budget speech, Singh defined "a self-reliant economy" as one that "can meet all its import requirements through exports, without undue dependence on artificial external props such as foreign aid" (para 15). He rejected a continued reliance on bureaucratic controls as the way to regulate imports:

> There are some who argue that all we need to do to solve our balance of payments problem is to compress our imports. I would like to point out that import compression has already been carried to the extreme and any further compression can only be at the cost of both growth and employment. Imports of non-essential consumer goods should certainly continue to be discouraged. However, we must recognise that the only lasting solution to our balance of payments problem lies not in compressing imports but in a rapid expansion of exports. A growing economy needs a growing volume of imports of fuel, and other industrial inputs and also of capital goods embodying modern technology. This is not to deny the importance of

[67] Singh (1997, 24) put it this way: "Self-reliance, as Nehru himself recognised, was not to be equated to autarky. It has to be understood that by following a policy of meeting our import needs by way of exports and normal commercial inflows of capital, we remain faithful to our goal of self-reliance."

> self-reliance, but self-reliance in today's world of integrated global markets cannot be achieved merely by reducing import dependence and insulating the economy from the world. Following that path will only lead to more import controls and promote inefficiency and corruption. It will perpetuate an environment in which Indian entrepreneurs will not have the flexibility they need to compete with other developing countries in world markets. The resulting inability to export will actually make us more, rather than less, dependent on the outside world. Our vision of a self-reliant economy should be of an economy which can meet all its import requirements through exports, without undue dependence on artificial external props such as foreign aid.[68]

He continued to emphasize this way of thinking even after leaving office. "For the last 44 years we talked of self-reliance," while in fact the country was dependent on foreign aid (Singh 2014, 366–67):

> If this country takes the task of self-reliance seriously, it has no option but to have an economic structure which enables the gap between imports and exports to be filled. And that is possible under Indian conditions only through a massive increase in exports.
>
> For all these 40 to 50 years of India's independence, particularly since 1947, there has been this chronic shortage of foreign exchange. And it has, in turn, led to an economic control mechanism, which has led to a lot of inefficiency and corruption…. In the name of import substitution, we tried to regulate everything. In the process we became an economy which was over-regulated and under-governed…. If you do not tackle the shortage of foreign exchange, I do not believe this country can really sustain a high rate of growth.

[68] Budget 1992-93 Speech, 29th February 1992, Part A; https://www.indiabudget.gov.in/doc/bspeech/bs199293.pdf

5. Reaction to the Reform

The reaction to the sweeping reforms announced in July–August 1991—within the government bureaucracy, by intellectuals and academic economists, by opposition political parties, and by industry and labor groups—was almost uniformly negative. There was certainly no consensus that the government had chosen the right path forward.[69]

In the civil service, even in the Finance Ministry, there was resistance to the new policies. Finance Secretary S. P. Shukla and chief economic advisor Deepak Nayyar were skeptical about devaluation and dismantling import controls. Ramesh (2015, 105) described it as "an extraordinary situation—the entire reform programme was conceived and executed without the full and active participation of the finance secretary and the chief economic adviser."[70] Singh essentially sidelined them. On one of his first days in office, Singh called together the senior civil servants in the Finance Ministry and reportedly said: "This is what needs to be done and the PM has given me full authority to get it done. If any one of you have any difficulty with this, speak up now and we can find you other things to do" (Sitapati 2016, 118; Mohan 2017a, 24).

Nayyar (1998, 352) himself confirms that "the circle that was convinced of the need for globalization and liberalization and was enthusiastic about reform was narrow, and constituted a rather lonely group…. Most of the cabinet was indifferent to the reforms and concerned only that they did not affect their support groups adversely." Nayyar counted just six reformers: Singh, Chidambaram, Ahluwalia, Reserve Bank Governor C. Rangarajan, public finance specialist Raja Chelliah, and chief economic advisor Shankar Acharya.

In a later interview, Nayyar reiterated that

---

[69] With some understatement, Ahluwalia said: "One cannot say there was a consensus on reforms. The left was bitterly opposed and many of the political class had doubts. But the technocracy was convinced, and the government persevered, and the country benefited from that." *Governance Now*, July 23, 2016; https://www.governancenow.com/views/interview/we-need-leaders-who-will-try-explain-the-logic-of-reforms-the-people

[70] Ahluwalia (2020, 136) writes: "The reforms we proposed did not have the support of the senior bureaucracy in the Ministry of Finance, but this was not allowed to lead to interminable inter-ministerial consultations."

> The political support for economic reforms was minimal. There was no consensus even in the ruling party, let alone across the political spectrum, about what needed to be done. It was more in the nature of a fait accompli…. The reforms were crisis-driven rather than strategy-based. Even so, Narasimha Rao deserves much credit for the deft political management.[71]

Senior civil servants could not stop Singh from moving forward; they may have disagreed with his decisions, but they were not personally affected by them. Lower-level bureaucrats responsible for administering the license raj were, however, directly affected.[72] The government's actions were a major blow to the office of the Chief Controller of Imports and Exports (CCIE), which at the time oversaw a staff of 3,000 bureaucrats who handled around 200,000 applications a year for import licenses and export subsidies. With the suspension of export subsidies, and the tying of import rights to exports through Exim scrips, the office's functions were gutted—and the opportunity for bribery diminished considerably.[73] The office was renamed the Directorate General of Foreign Trade, with the same staff but a different function.

While those in government were constrained from making public comments about the new policies, those outside government did not hold back their attacks. Among the most vociferous critics were left-wing intellectuals who were influential in the media.[74] Academic economists (also mostly on the political left) opposed the market-oriented policies, which they saw as abandoning the nation's commitment to socialism. They

---

[71] *Indian Express*, July 6, 2016; https://www.deepak-nayyar.com/pdf/EReformsAfter25Years-TheIndianExpress-new.pdf

[72] "Corruption in import licensing mainly benefited bureaucrats; its political significance was small. Its abolition would remove the need for firms to get licenses twice a year, the delays, and the bribes," wrote Desai (1999b, 28).

[73] There were even reports of threats on Chidambaram's life. According to Ashok Desai: "The CCIE's office lost most of its work; so did the clerks of the industry ministry responsible for issuing no objection certificates. They were so incensed that they went to kill Chidambaram. Luckily he was not in his room; so they damaged the door and left." *Governance Now*, July 18, 2016; https://www.governancenow.com/views/columns/25-years-economic-reforms-memories-bitter-sweet

[74] Manmohan Singh's daughter worked for a nongovernmental organization and said that 1991 was the most miserable year of her life because her colleagues were by outraged at her father's actions (Sitapati 2016, 111; Singh 2014, 355).

believed that opening up the economy would lead to uncontrolled prices, unregulated competition, and unchecked market forces that would bring chaos and deepen inequality.[75]

For example, in July, 35 prominent left-leaning economists issued a public statement denouncing the devaluation and the negotiations with the IMF. They held that the devaluation would cause inflation and the fiscal retrenchment would cause a recession, each with a high social cost. They argued instead for "a more restrictive import regime that corrects for the foreign exchange profligacy during the 1980s." In other words, they had no alternative policy except further import repression (Ramesh 2015, 193–94).[76]

The rank-and-file members of the Congress Party, stunned at the unveiling of the reforms in July–August 1991, were also skeptical of the newly unveiled policies. Prime Minister Rao's principal contribution was not in designing the policies but in ensuring acquiescence if not acceptance of them by the members of the party. As Sitapati (2016, 136) noted: "When the whole Congress Party was against reforms, he allowed the members of parliament to vent their anger for three consecutive days. The main anger was due to the cut in subsidies of fertilizers and petrol as part of the fiscal tightening rather than the trade reforms." Still, about 55 members of the Congress Party were specifically against the trade actions (Sitapati 2016, 136). At a party conference in April 1992, Rao managed to win a vote endorsing the liberalization by convincing reluctant members that actions during the crisis were consistent with Nehru's vision and the election manifesto (Sitapati 2016, 143).

If the reforms were controversial within the Congress Party, opposition parties across the political spectrum denounced the government's actions. The left excoriated the

---

[75] "There was surprisingly little support among academic economists for either domestic decontrol or external liberalization," Ahluwalia (2020, 83) recalls. Mohan (2017, 16) has a similar view with respect to industrial licensing: "What is more difficult to comprehend is the continued allegiance of the majority of informed academic opinion to this system. It was only in the 1980s that deregulation gained some support; ironically, there was more support for deregulation in the bureaucracy than in academe. It is difficult to find scholarly articles from Indian economists arguing for industrial deregulation during that period. The majority of academic opinion still believed that this control system supported the ideals of planned development."

[76] In one representative article, Patnaik and Chandrasekhar (1995, 3002) argued that "India could have managed her payments and restored confidence in her currency with a relatively low-conditionality IMF loan without going in for the whole gamut of structural adjustment measures. The reason that she did go in for structural adjustment was not because of any objective necessity being faced by the economy but because the 'liberalisation' lobby, consisting of both the Fund and the Bank as well as elements within the Indian government and business class…, considered this a heaven-sent opportunity to tie the country down to structural adjustment, to jettison altogether, and not just rectify, the dirigiste regime which had prevailed since independence. In other words, the event of historical significance…was achieved as a silent coup, behind everybody's back as it were, by trapping the country into structural adjustment."

government for abandoning socialism while the right attacked the government for hurting the poor. Former prime minister Chandra Shekhar denounced the trade opening. In response, Chidambaram reminded him that his administration had considered undertaking exactly the same steps.[77] Shekhar also attacked the devaluation and accused the government of surrendering the country's sovereignty to the IMF. The leader of the Communist Party of India compared the official defense of its actions to "a thirsty man taking a cup of poison on the plea that there is no alternative with which he can quench his thirst" (Frankel 2009, 593–94). The opposition Bhartiya Janata Party (BJP), a Hindu nationalist movement, rejected any opening to foreign investment and said government was turning its back on Mahatma Gandhi's concept of "self-reliance." The left-leaning West Bengal government produced a paper that attributed the economic crisis to the "indiscriminate rush toward import liberalization" in the 1980s and argued that a devaluation was unnecessary because the balance of payments problem could be handled by stricter controls on imports (Ahluwalia 2020, 138).

The most common criticism of the reforms was that the government had bowed to the demands of the IMF. As Ahluwalia (2020, 113) notes, the easiest way to damn an idea in Indian politics at the time was to say it was what the IMF or the World Bank would want. Singh and his colleagues were sensitive to this accusation and anticipated it. They did not open loan negotiations with the IMF until August 1991, after the devaluation and trade reforms had been announced, and the IMF loan was not approved until October. These events occurred close enough in time for critics to claim that the government did the IMF's bidding, but the government insisted that it had undertaken the reforms willingly and independently of the Fund.

---

[77] As Chidambaram said: "Position papers had been prepared. There were the Alexander committee report and the Abid Hussain committee report. And the commerce ministry had prepared some steps which needed to be taken. But the Chandra Shekhar government had not implemented them as it was a lame duck government. I can't say whether that government was ready but there was no discussion at the political level. The ideas were there. But when the policy was announced, Chandra Shekharji was furious. He was sitting in the Opposition and he said that this is all a sellout. Then I went to him and said that all this was formulated when you were Prime Minister except that you didn't get to discuss this perhaps at the political level. I showed him the file. All this is there and there was an exchange between the commerce ministry and the PMO." *Indian Express*, July 6, 2016; https://indianexpress.com/article/india/india-news-india/we-are-still-not-a-fully-open-competitive-economy-too-much-government-interference-p-chidambaram-2888514/

In his budget speech of February 1992, Singh took on the allegations directly (Reserve Bank of India 2013, 458):

> It has been alleged by some people that the reform programme has been dictated by the IMF and the World Bank…. I wish to state categorically that the conditions we have accepted reflect no more than the implementation of the reform programme as outlined in my letters of intent sent to the IMF and the World Bank and are wholly consistent with our national interests. The bulk of the reform programme is based on the election manifesto of our Party. There is no question of the Government ever compromising our national interests, not to speak of our sovereignty.[78]

The government advanced the idea of "homegrown conditionality," that the government initiated the reforms itself and then presented them to the IMF in advance of a program (Chaudhry, Kelkar, and Yadav 2004; Dash 1999). Even skeptics of the reforms agreed that it was not the work of the IMF or the World Bank.[79] As Baldev Raj Nayar (1998, 351) pointed out: "If the IFIs applied pressure at all they were pressing against an already opened door."[80]

Of course, the outrage at the government's actions was partly political theater. At one point, Singh got upset at the vicious criticism being directed at him from the opposition benches. The prime minister spoke with Atal Bihari Vajpayee, the leader of the BJP, about the effect of the attacks on Singh's morale. Shortly thereafter, Vajpayee told Singh privately

---

[78] See also https://rbidocs.rbi.org.in/rdocs/content/PDFs/Chapter12_04122018.pdf.

[79] The working relationship between the Indian government and the IMF "was a little unusual, in that the authorities knew full well what they needed to do to qualify for the Fund's seal of approval and financial support. The decision to devalue, for example, was not made at the insistence of the Fund, but on the understanding that the Fund would approve it and that both sides believed it was necessary and was in India's interest." These discussions "were amicable and collegial" (Boughton 2012, 449).

[80] Baldev Raj Nayar (1998, 354) argued: "the economic policy reforms had thus less to do with the pressures of the IFIs or simply the intellectual power of new economic ideas, but more with the experience-based realization that earlier economic policies had failed to achieve the national goals to which the leadership was committed and that reforms were therefore necessary to achieve those goals." Ahluwalia (2020, 39) observes that "the IMF obviously approved the reform…but that is not the same thing as saying it dictated the contents" of the program. In the November 1991 stand-by arrangement, the IMF provided up to $2.2 billion over a period of 20 months, with a comprehensive set of performance criteria and structural benchmarks to be achieved by May 1993. India used the IMF loan to build up foreign exchange reserves rather than reduce import compression.

that it was the duty of the opposition to oppose and criticize, but he should disregard that and continue with what he was doing.[81]

A united opposition could have brought down the minority government, but the opposition was divided and could not come together to stop the new policies. The first test was on July 15, when the government faced a no-confidence motion in the Lok Sabha. But the political left hated the rightwing Hindu-nationalist BJP more than it hated the Congress Party and its policies, and did not want to see another government fall.[82] Rather than vote with the BJP against the government, the left simply walked out during the motion. The Rao government survived by a comfortable vote of 241–111, although the vote would have been narrower without 112 abstentions. The government continued to benefit from the political dissension among the opposition parties.[83] By early 1992, the government had survived three no-confidence votes. Furthermore, the opposition parties did not unite against the budgets of September 1991, May 1992, and May 1993 that contained the bulk of the reforms—all passed, despite the lack of a Congress Party majority.[84]

India's business community and industrialists had mixed views about the reforms but they did not stand in the way of the government's efforts. Business and producer interest groups did not demand significant policy changes, and the reforms were not undertaken because of any "probusiness" stance of the government. In general, business supported domestic delicensing but was wary about reducing protection for Indian

---

[81] *Indian Express*, December 28, 2024, https://indianexpress.com/article/political-pulse/manmohan-singh-vajpayee-unlikely-bond-9747442/; and Rediff.com, August 9, 2016, https://www.rediff.com/business/report/who-were-the-real-heroes-of-the-1991-reforms/20160809.htm

[82] "The left—the Communists and the lower-caste Janata Dal and its allies—disliked the reforms, but they *disliked Hindu nationalism even more*" which meant they supported the Congress Party in parliamentary votes (Varshney 1999, 247).

[83] As Hasan (2013, 58) notes: "the paramount concern of the non-Congress parties was to contain the BJP, and this was given precedence over their long-standing hostility to the Congress and its economic reform agenda.... In effect, economic reforms were crowded out of mass politics by issues of national identity.... The primacy of secular politics and the need to contain the BJP's further expansion was one important reason why economic liberalization did not face significant hurdles even though the Congress lacked a majority in the Parliament." And Hasan (2013, 60): "most political parties expressed disapproval with the economic policies, but they did not organize major or sustained protests against them. The Congress government was able to make the most of the fear of the BJP in the early 1990s to neutralize the opposition to economic reforms. Despite ideological objections, there was no real political pressure to overturn economic reforms."

[84] "Three annual budgets, embodying the bulk of India's post-1991 reforms, were passed in India's parliament," Varshney (1999, 248) reported. "India's economic reforms kept progressing because the political context made Hindu-Muslim relations and caste animosities the prime determinant of political coalitions."

industry, through either trade or foreign investment. The message from industry was "domestic liberalization today, and external liberalization later" (Sitapati 2016, 110). The Bombay Club, an informal grouping of politically connected large businesses, enjoyed the security of the status quo, and feared the entry of foreign multinationals into India's market. They wanted domestic delicensing to make industry more competitive but an extended period of adjustment before further opening of the economy to foreign competition (Kochanek 2007, 426).[85] They were wary about import liberalization: "They wanted liberalization of imports of machinery and inputs for their own production but not of imports that would compete with what they produced" (Ahluwalia 2020, 83).

Still, there was remarkably little backlash against the trade policy changes, partly because the cuts in fuel and fertilizer subsidies hit consumers and farmers more directly, and the industrial reforms constituted a more dramatic change in the market. As Chidambaram later said:

> I don't think many people understood the trade policy. All that they understood instinctively was that imports were being made freer. This was a country which was weaned on import pessimism. And, therefore, reducing tariffs and making imports license-free was anathema to the socialist group. But I can't recall any major opposition to the trade policy. There was open opposition to the devaluation and more vocal opposition to the industrial policy. But I think Narasimha Rao handled it well and overcame this.[86]

Labor unions were much more upset with both the devaluation (and the rise in the cost of living for their members) and reduction in domestic subsidies than with the trade

[85] "The captains of Indian industry were comfortable deriving monopoly rents from the country's over-regulated economy," Mukherji (2013, 365) notes. "The state had to…nudge them towards accepting deregulation and globalization when they were hesitant to do so." Jävervall and Khoban (2025) provide evidence that the value of business political connections fell after the reforms.

[86] *Indian Express*, July 6, 2016, https://indianexpress.com/article/india/india-news-india/we-are-still-not-a-fully-open-competitive-economy-too-much-government-interference-p-chidambaram-2888514/ Desai (1999b, 32) observed: "The liberalization of trade and payments in 1991–93 faced no resistance from domestic industry and trade because the initial devaluation had given it added protection, and because the controls that had just preceded it had been draconian. Resistance came from the bureaucracy."

policy changes. They did not generally support the trade actions but were less immediately affected by them.

Thus, the reforms had no domestic constituency or strong advocates outside the technocrats in government. There was no consensus that the policy changes were necessary, but the government had the authority to implement them and could not be stopped. In contrast to the fiscal tightening, the trade reforms did not directly harm key interest groups, which explains why opposition to them was so weak. Exporters benefited from the devaluation and were compensated for the withdrawal of export subsidies with the valuable Exim scrips. Import-competing industries were assured that imports were not going to surge—the devaluation made imports more expensive—and although licensing was relaxed, the level of imports was initially tied to exports, and tariff reductions were not implemented immediately.

6. Consolidating the Reform: Exchange Rate Unification and Tariff Reductions

It is one thing to introduce controversial reforms and another to ensure that they survive and become the new status quo. The immediate political viability of the 1991 reforms was aided by their success in the short and medium term.

In the short term, the balance of payments crisis eased, and the foreign exchange situation improved. As a result, the Reserve Bank was able to relax the advance import deposit requirement, reducing the cash margin from 200 percent to 150 percent in October 1991, 50 percent in December, and 25 percent in January 1992. Figure 1 shows that the number of months of imports covered by reserves rose from less than one in 1990-91 to almost 7 in 1993-94. Exports grew rapidly and the percentage of imports financed by export earnings rose from 50–60 percent in the late 1980s to 80–90 percent by the mid-1990s, as the country moved away from external assistance and foreign borrowing to finance its current account deficit.

In the medium term, economic growth began to pick up. Although growth was slow at 1.3 percent in 1991–92 during the crisis, it rebounded to more than 5 percent in 1992–93 and 1993–94 before hitting 7 percent over the next three years. This was a marked acceleration from the 3 percent “Hindu rate of growth” days.

These early successes gave the government time to consolidate the reforms without pressure to reverse course. "Success made new believers of old skeptics" (Ramesh 2015, 133). While July–August 1991 was a revolution, trade reform is a process. The external sector reforms were consolidated in three ways during the 1990s: foreign exchange unification, tariff reductions, and removal of quantitative restrictions on imports.

A. Exchange Rate Unification

Under the license raj, exporters were required to turn over their foreign exchange earnings to the government at the official exchange rate, to be rationed among various importing users. A major goal of the 1991 reforms was to create an open market in foreign exchange, establish a unified market-determined exchange rate, and make the rupee convertible for current account transactions.

In November 1991, the Ministry of Finance and the Reserve Bank of India released a concept paper, "Toward Rupee Convertibility," from a committee chaired by Rangarajan and Ahluwalia.[87] It proposed replacing Exim scrips with a new dual exchange rate system, the Liberalized Exchange Rate Management System (LERMS). Under the new arrangement, exporters would keep 60 percent of their foreign exchange earnings at the market rate and surrender the rest at the official exchange rate. This dual exchange rate system was a transitional arrangement in moving toward a unified exchange rate and convertible currency.[88] It was designed to ease the transition from a control regime to a market-oriented trade and payments system; the goal was to reduce the gap between the two rates over time until it was possible to unify the exchange rate.

Singh announced the adoption of LERMS in his March 1992 budget speech. Critics feared that capital flight would cause the rupee to sink in value.[89] Instead, the rupee appreciated on foreign exchange markets, which allowed the buildup of foreign exchange

[87] See Ahluwalia (2020, 159-161) and Rangarajan (2022, 66-67).
[88] This multiple currency practice was a technical violation of the stand-by arrangement with the IMF, but the Fund granted a waiver, recognizing it as a step toward a unified exchange rate. See Boughton (2012, 450).
[89] As Virmani (2003, 3379) reported: "Many intellectuals and economists predicted that there would be huge capital outflows and the rupee would sink to Rs. 40 per US$ on the market channel. Some sceptics even predicted a free fall to Rs. 50 per US$. The market exchange rate opened around Rs. 31.27 per US$ in March 1992 and rose to Rs. 30.87 per US$ in January 1993."

reserves (figure 1). This made it possible to unify the exchange rate and make the rupee convertible for most current account transactions in March 1993. In August 1994, India formally made the rupee fully convertible on current account transactions by accepting the obligations of Article VIII of the IMF's Articles of Agreement.

By creating a market in foreign exchange and allowing the rupee to fluctuate in a managed float, the Reserve Bank ensured that its currency would not be overvalued again, obviating the need for import controls and foreign exchange rationing. The black-market premium that had been so pronounced for so many decades shrank (figure 2), and foreign exchange reserves were no longer a major policy preoccupation. These technocratic steps did not involve party politics and generated no political controversy but were crucial to the change in India's trade and payment regime.

B. Tariff Reduction

Although the system of foreign exchange allocation had been reformed, import tariffs were still very high. The government sought to bring them down, subject to a fiscal constraint: in 1991, customs duties raised about one-third of the government revenue. Hence, there was a need to overhaul the tax system and tap into alternative sources of revenue. In August 1991, the government set up a Tax Reform Committee chaired by Chelliah to provide a roadmap for reform.

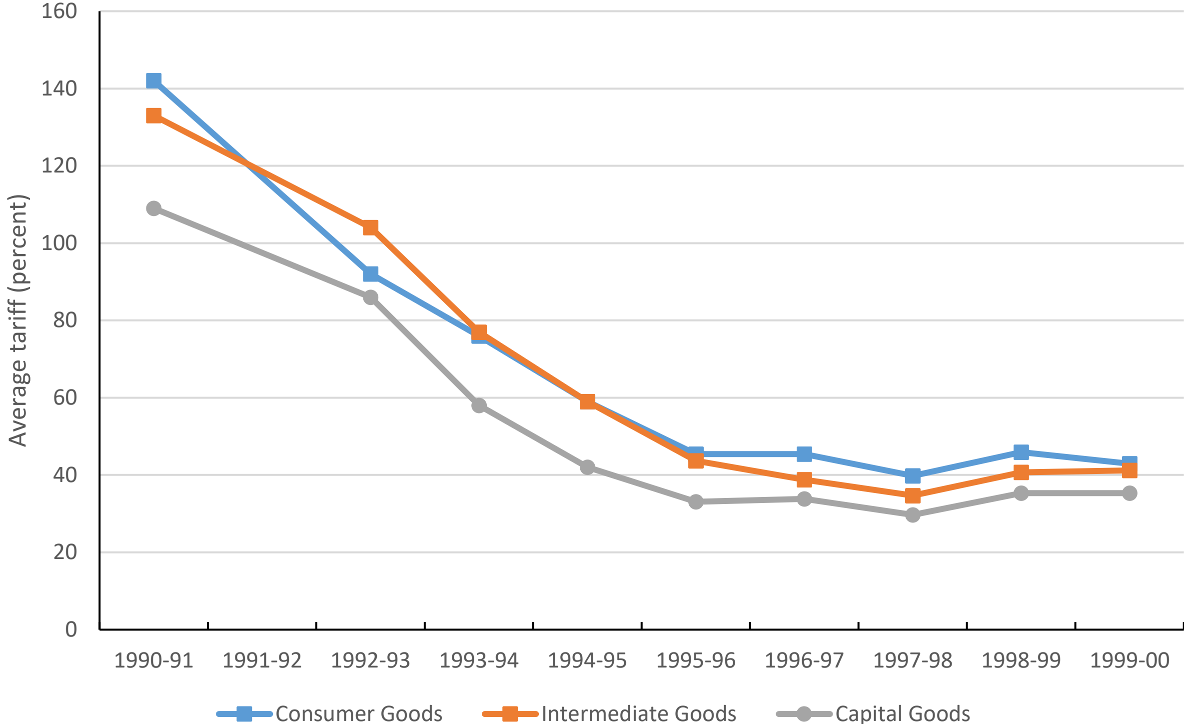
An interim report, released in December 1991, recommended fewer tariff rates, greater uniformity of rates, and lower rates. It proposed that tariffs be reduced by 50 percent over the next four years so that the average rate would fall from 90 percent to 45 percent and eventually brought down to about 25 percent by 1998–99 (Chelliah 1991, 98).

The report was welcomed by Finance Minister Singh in his February 1992 budget speech. He proposed cutting the maximum tariff rate, which had been as high as 355 percent in 1990–91, to 85 percent. He also planned lower rates on machinery and on a wide range of inputs, with the goal of tariff rates ranging from 5 to 30 percent by 1997–98. In successive budgets, the government succeeded in bringing tariff levels down (figure 3).[90]

[90] However, Bown and Tovar (2011) note that antidumping duties went up as formal tariff levels came down.

By 2000–01, India had simplified its tariff schedule to just four categories of duty (35 percent, 25 percent, 15 percent, and 5 percent), with most merchandise imports in the 25 and 35 percent categories.

Figure 3 Average import tariff in India, by end use, 1990–91 through 1999–2000



Source: World Bank (2000, 165).

How was it possible to achieve such a significant tariff reduction without sparking a domestic backlash?[91] In terms of politics, the depreciation of the rupee was key to easing the adjustment for industries competing against imports. As Ahluwalia (2017, 50) notes, "The exchange rate was very significantly depreciated over a two-year period, and this made it possible to liberalize import controls and reduce import duties with far fewer

[91] As Ahluwalia (2020, 153) notes: "The debate on import duties was often conducted on the assumption that high import duties helped Indian producers and hurt only foreign producers who were seeking to compete with our producers in the domestic market. There was little recognition that high duties also hurt Indian consumers and made exporters uncompetitive."

problems than would have arisen if trade liberalization was not accompanied by exchange rate depreciation."

In addition, the tariff reductions did not require public debate. The finance minister had broad discretion in the setting of tariff rates. In passing the budget, the Lok Sabha determined the maximum rates of excise and customs duties, but the finance minister could declare a lower rate by public notice.[92] This was how the Finance Ministry proceeded. The government "had learnt to carry out incremental reductions in tariffs and licenses by executive decisions that rarely made it to the front pages of newspapers" (Sitapati 2016, 161).[93] However, the reductions still required politics and were undertaken with care. Singh spent "sleepless nights" to make sure that tariff cuts would not unduly harm domestic industries or provoke political opposition (Ninan 2017, 81).

India's tariff reductions were made unilaterally, not in the context of international trade agreements. Although India participated in the Uruguay Round of trade negotiations under the General Agreement on Tariffs and Trade (GATT), these negotiations, which concluded in early 1994, only involved reductions in India's bound tariff (the maximum allowed), which were substantially above its applied tariffs. The average bound rate on merchandise imports was 52 percent after the Uruguay Round, but the average applied rate was 31 percent (Finger, Ingco, and Reincke 1996, 31).[94]

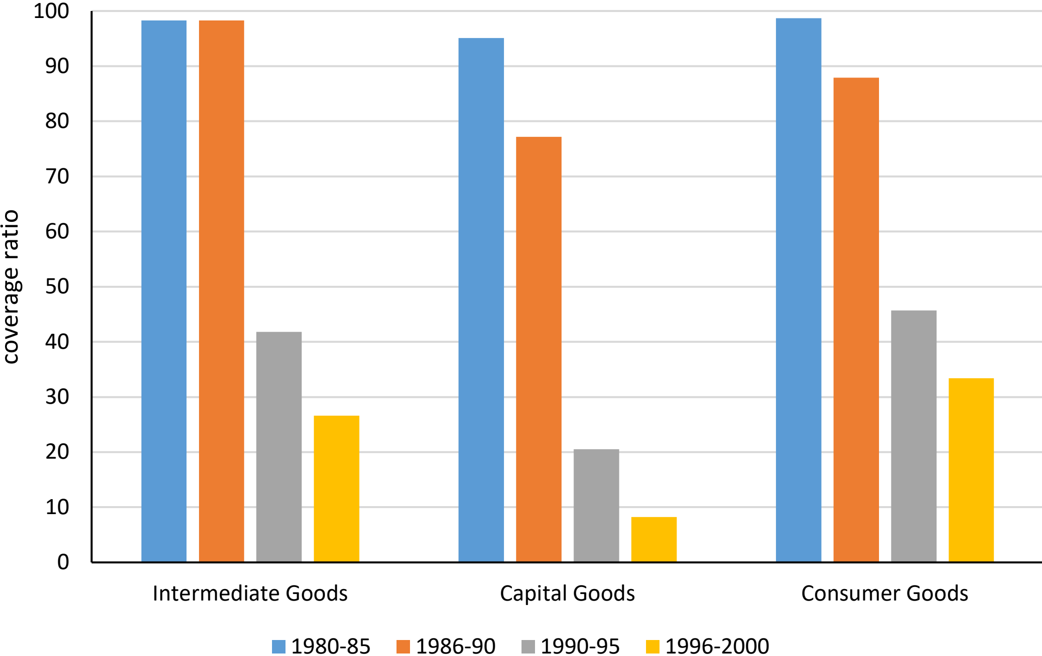
C. Quantitative Restrictions

The 1991 trade policy reforms did not abolish all import licensing, but progress on this objective continued through the decade. In 1988–89, 95 percent of all products imported to

[92] Tendulkar and Bhavani (2007, 123) noted that "tariff reductions lie entirely within the discretion of the central government by issuing notification and reporting the change in the gazette. While passing the budget, the parliament approves the *ceiling* rate of excise and customs, which cannot be exceeded through executive discretion. However, any rate can be fixed *below* the ceiling level by notification."
[93] "After 1992, we did that for which we didn't have to go to Parliament for approval," Singh said. "That was how we were able to go through reform" (quoted in Sitapati 2016, 161).
[94] India did, however, increase its tariff bindings from 12 percent of its tariff lines before the Uruguay Round to 69 percent after. The Uruguay Round agreements involved other obligations that caused a domestic stir. Opponents charged that "New Delhi had bartered its economic sovereignty to a latter-day East India Company" by agreeing to the terms, but Rao personally drafted the Congress Party's resolution in support of the Uruguay Round (Sitapati 2016, 162).

India were covered by nontariff barriers; that percentage was down to 66 percent by May 1995 and 36 percent by May 1996 (Srinivasan 2003, 19). As figure 4 shows, the initial reforms made substantial progress in freeing of imports of capital goods and raw materials from nontariff barriers (quantitative restrictions). Still, state enterprises retained monopoly control over certain key imports and exports, such as petroleum, medicine, and cereals, and many consumer goods remained banned from the domestic market.

Figure 4 Nontariff measures in India, coverage ratios, 1980–2000



Source: Das (2003, 18).

The Uruguay Round agreements may not have affected India's tariff policy, but they obligated the government to eliminate all quantitative restrictions on imports. In 1997, the United States, European Union, and other countries brought a case charging that India's quantitative restrictions violated Article XI of the GATT. India defended the restrictions based on the balance of payments exception to the GATT (Article XVIII). In 1999, a panel found that the balance of payments exception was not justified given that India's now sizable foreign exchange reserves were not threatened by their removal, a decision upheld by the Appellate Body.

India complied with the finding and began to dismantle the remnants of its import licensing system. In this case, India's market was opened as a result of external pressure in the form of a WTO dispute, not a domestic consensus. By April 2001, the last 715 of 2,714 tariff lines that were affected by quantitative restrictions were removed with surprisingly little political backlash (Bagchi 2001). However, from 1997 to 2001, the Ministry of Commerce imposed para-tariffs (along with antidumping and countervailing duties), a WTO-compatible form of protection, to limit the amount of consumer goods entering the market.

The consolidation of the reforms, in terms of the new exchange rate system, the reduction in import duties, and the abolition of quantitative restrictions, was possible over time because of continued political support throughout the 1990s.[95] Rao served out his term until 1996, when a leftist United Front government (1996–98), which included a faction of the Communist Party, took over. This government did not undo the reforms; in fact, Chidambaram was finance minister during this period (and again in 2004–08 and 2012–14). In 1998, a right-of-center coalition government led by the BJP took over and continued the reform process, including the removal of quantitative restrictions on consumer goods.

Elections during this period concerned not economic policy but other issues, such as religion and sectarianism.[96] The public was not well informed about the policy reforms and hence they were not an electoral issue. In a 1996 survey, 80 percent of the electorate had not heard of the economic reforms and few of the remaining 20 percent knew what they were about (Kumar 2008).

[95] "Politicians separately criticized the policy initiatives when they were in the opposition, but this did not prevent them from continuing the very same policies in office, and on many occasions even strengthening them" (Ahluwalia 2016, 46).
[96] As Varshney (1999, 225) noted: "Economic reforms were simply a non-issue in the 1996 and 1998 elections. Ethnic and religious disputes, secularism, caste-based affirmative action, and social justice have been driving India's mass politics over the last 10–15 years."

7. Concluding Observations

The license raj was introduced in the late 1950s as a result of pressure on India's foreign exchange reserves and the decision to opt for import controls rather than a devaluation. The controls were maintained for nearly 40 years despite the problems they created. In a July 1993 paper, the government called attention to the harmful effects of that trade regime:

> These policies had a number of unfortunate consequences: the benefits of foreign trade were suppressed; inefficient, high-cost industries, with uneconomic scales of production were encouraged; costs of traded inputs were high; exports could be competitive only with large subsidies; the heavy protection to domestic industry discriminated against agriculture; discretionary arbitrariness, abuse and delays were widespread and exacted an especially heavy price in time, effort and money from small and medium producers; the associated over-valuation of the exchange rate hurt all exporters, including service exports, and remittances from our workers abroad.[97]

The Indian economy bore these costs for several decades before the 1991 opening. The policy reforms introduced that year marked an important turning point in the country's history. Whereas India's exports of goods and services had been about 7 percent of GDP in 1990, they reached about 25 percent of GDP by 2010. This allowed imports as a share of GDP to grow as well (figure 5). After changes to the foreign exchange regime were introduced, import licensing and concerns about the level of official foreign exchange reserves became largely vestiges of the past.

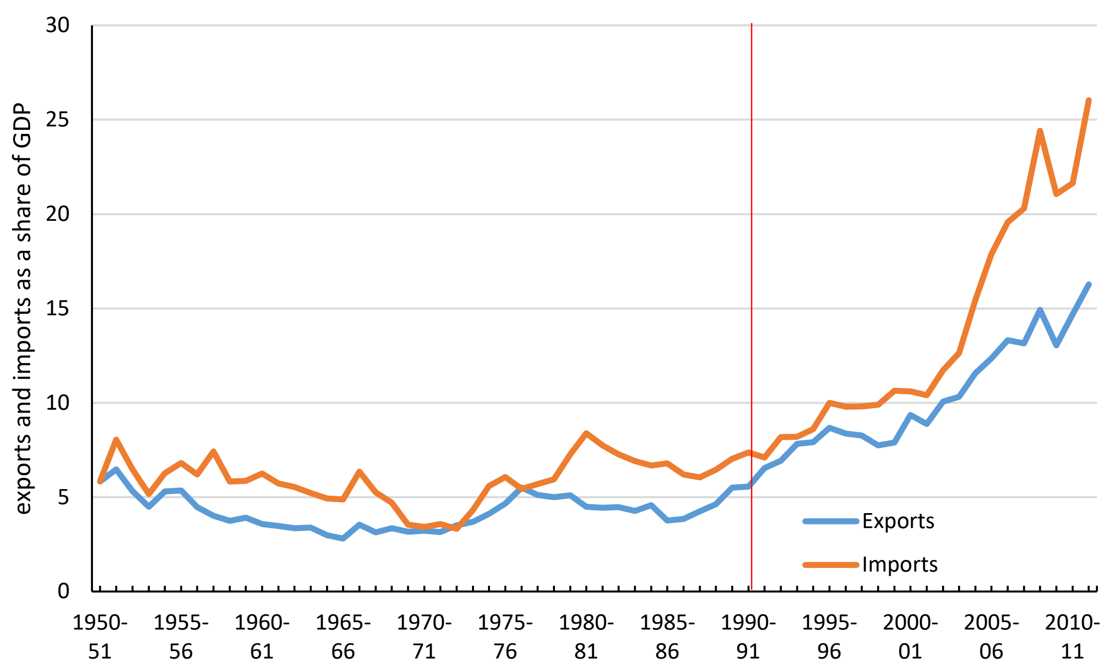
India's experience provides some important insights into the political economy of trade reform. These have to do with the centrality of the balance of payments, the relative

---

[97] Government of India, Ministry of Finance, *Macroeconomic Reforms: Two Years After and the Task Ahead,* 1993, quoted in IMF (1994, 34).

unimportance of economic interest groups, and, especially, the importance of political leadership and technocratic consensus.

Figure 5 India's exports and imports of goods and services as share of GDP, 1950–51 through 2022–23



Source: Reserve Bank of India.

First, India's misaligned exchange rate was the root cause of the balance of payments problems and chronic shortage of foreign exchange that shaped the country's trade system. The issue facing the country was not that it was importing too much to the detriment of domestic producers. Many imports do not compete directly with domestic producers and are necessary for domestic production, particularly imports of capital goods and raw materials. Rather, the problem facing India was how to pay for more imports that it desperately needed. The balance of payments problem could not be solved simply by reducing imports. The country turned to export promotion to generate the foreign exchange necessary to purchase those imports.

The devaluation and maintenance of a realistic exchange rate were essential to the whole reform project because they helped stimulate exports and the growth of export

earnings while providing a price-based way of rationing imports. Creating a market in foreign exchange was necessary to abolish the import controls that were an inherent part of the rationing mechanism. In retrospect, this was easily done. "Generations of Indian administrators and economists had come to believe that import licensing was necessary to manage the shortage of foreign exchange," Ahluwalia (2020, 161–62) notes. "The ease with which we were able to shed these controls and let the exchange rate handle the shortage of foreign exchange showed that these fears were unwarranted."

Second, the trade and exchange system was not created at the behest of domestic interests complaining about foreign competition, but rather by the government in an effort to conserve foreign exchange. This meant that producer interests were neither defenders of the old policy nor staunchly opposed to the new policy, making it relatively easy to overturn the long-standing and deeply entrenched status quo. Here again, in retrospect, change was easier than might have been anticipated (Ahluwalia 2002, 73):

> Removing quantitative restrictions on imports of capital goods and intermediates was relatively easy, because the number of domestic producers was small and Indian industry welcomed the move as making it more competitive. It was much more difficult in the case of final consumer goods because the number of domestic producers affected was very large (partly because much of the consumer goods industry had been reserved for small-scale production).[98]

Changing certain policies—the exchange rate, reorganization of the foreign exchange market, details of the import licensing system—were technical matters and the province of high-level policymakers, and these actions had fewer political veto points that might block reforms.[99]

[98] According to Khatkhate (2003, 5351): "The 1991 economic reforms had a relatively easy passage. Most of the actions were in the realm of removing controls and licenses, which, though fraught with political ramifications, could be easily dismantled. But the task is much more daunting and complicated when subsidies, governance, administrative, legal and labour reforms, which all involve delicate balancing of disparate political vote banks and lobbies, have to be confronted."

[99] Tendulkar and Bhavani (2007, 105) distinguish between reforms that are carried out by quasi-independent agencies (exchange rate reforms and the Reserve Bank) or that lie within the discretionary power of government (such as the Ministry of Finance and tariffs and import policy), and those that require legislative

Third, the drivers of reform were a technocratic elite who did not have strong support in the Indian bureaucracy, among the members of the Congress Party, among the general public, or in the business community—"policy reform was favored by state elites under the influence of new ideas" (Shastri 1997, 28). In essence, these key policymakers wanted to shift the policy mix from fixed exchange rates and import controls to flexible exchange rates and liberalized trade. One problem with the approach taken is that it amounted to "reform by stealth" and did not generate strong public backing for the changes. "One can easily understand why politicians favor reform by stealth, because it suggests that one can achieve what one wants without disturbing the hornet's nest of vested interests," Ahluwalia (2017, 55) points out. "The trouble with such an approach is that it can never create a broader constituency for reforms looking ahead."

There is a long-standing debate in India about who deserves the most credit for the reforms. As head of the government, Prime Minister Rao was in charge and allowed the reforms to move forward, even if he did not lead the way, although he adroitly managed the process in the Congress Party. Rao's "real contribution to economic reform and liberalization was his political management of a contentious process," Baru (2016, 103–04) argues. "All the talented and committed economists and civil servants in government could not have pushed reforms without political support."[100]

Singh gave credit to Rao for allowing the process to move forward. As Singh explained: "Academic economists who have written about economic reforms in India tend to see the process as an acceptance of technical recommendations which have long been advocated by economists. However, reforms don't just happen just because there is a professional consensus. They happen when the political leadership of the time decides to back these initiatives."[101] As Rao himself once said: "Finance Ministers are much like zeros.

---

amendment (labor legislation in the Lok Sabha). The first can be accomplished quickly and easily, the second (which would include agricultural policy and labor policy) are politically difficult and slow.

[100] Nayyar (2016) gives credit to the prime minister: "Rao was just as deft in political management. He saw that political support for economic reforms was minimal. There was no consensus even in the ruling party, let alone across the political spectrum, about what needed to be done. But he recognized the political value of the reality in the national context and the conjuncture in the international context." In Sitapati's (2016, 138) view: "Without Narasimha Rao's political skill in playing up the crisis, disguising change as continuity, and deploying the incorruptible Manmohan Singh's technocratic image, reforms may well not have happened."

[101] "[H]e allowed the process of liberalization and opening up to go ahead and gave it his full support. Without his support I could nothing. And as prime minister, it was essentially he who got the cabinet on board" (Singh

Their value depends on what you put before them. The digit on the left is provided by the PM."[102]

Yet Rao never championed the reforms and was not the public face of the reforms.[103] He was reluctant to be identified as the agent of change. Singh (2014, 378–79) suggests that Rao was a reluctant reformer: "I don't think he had thought it [the reform package] through. But he had faith in what I told him…. I had to persuade him. I think he was a skeptic to begin with, but later on he was convinced that what we were doing was the right thing to do, that there was no other way out."[104]

In the end, Finance Minister Manmohan Singh was clearly the key figure in orchestrating the reforms. "While all of these people made several important contributions to the reform effort in the 1990s, none of it would have happened without the clear and decisive leadership of Manmohan Singh," Ahluwalia (2020, *xii*) states. Specifically, "Trade liberalization, the shift to a flexible exchange rate, and reforms in the financial sector occur largely because of Manmohan Singh's expertise and wisdom. He knew the interdependence of these reforms and orchestrated them skillfully" (Ahluwalia 2020, 174). Yet Singh was characteristically modest about his contribution: "I don't see much originality in those. These were ideas which were being discussed inside the government and outside, too. All I did was put them all together in a coherent whole, when I got an opportunity."[105]

2014, 380). *Outlook*, August 1, 2013, https://www.outlookindia.com/website/story/the-1991-reforms-did-not-happen-suddenly/287281.

[102] Quoted in Nayyar (2016). Mohan (2017) writes that the two were "clearly a partnership: Manmohan Singh provided the intellectual leadership to the comprehensive nature of economic reforms…while Narasimha Rao's political sagacity, management skills and courage were essential to the reform project."

[103] "Rao's claim to be the real father of India's economic reforms would have been unassailable if he had led from the front and pushed the Congress Party and public to think afresh on the policies needed to meet contemporary challenges. This he did not do," Ahluwalia (2020, 174) argues. "He fully backed the economic policy changes while the crisis was raging and spoke in defense of the reforms as essential for managing the crisis. Once the crisis was over, Rao did little to educate the public on the need for continued reform."

[104] By contrast, Rangarajan (2022, 62) insists that Rao "was not a reluctant reformer. He strongly believed in change. In fact, as prime minister, he also held the portfolio of industry and was responsible for dismantling the licenses and controls that characterized our industrial system."

[105] *Indian Express*, December 27, 2024, https://indianexpress.com/article/india/india-news-india/manmohan-singh-opening-indian-economy-1991-economic-reforms-pv-narasimha-rao-rbi-indian-rupee-devaluation-2886876/

References

Acharya, Shankar. 2003. *India's Economy: Some Issues and Answers.* New Delhi: Academic Foundation.

Aghion, Philippe, Robin Burgess, Stephen J. Redding, and Fabrizio Zilibotti. 2008. The Unequal Effects of Liberalization: Evidence from Dismantling the License Raj in India. *American Economic Review* 98, no. 4: 1397–412.

Ahluwalia, Montek S. 2002. Economic Reforms in India since 1991: Has Gradualism Worked? *Journal of Economic Perspectives* 16: 67–88.

Ahluwalia, Montek S. 2013. Policies for Strong Inclusive Growth. In *An Agenda for India's Growth: Essays in Honour of P. Chidambaram*, ed. Sameer Kochhar. New Delhi: Academic Foundation.

Ahluwalia, Montek Singh. 2016. The 1991 Reforms: How Home-Grown Were They? *Economic and Political Weekly* 51 (July 16): 39–46.

Ahluwalia, Montek Singh. 2017. India's 1991 Reforms: A Retrospective Overview. In *India Transformed: 25 Years of Economic Reforms,* ed. Rakesh Mohan. New Delhi: Penguin Random House.

Ahluwalia, Montek Singh. 2020. *Backstage: The Story Behind India's High Growth Years.* New Delhi: Rupa.

Amaya, Salvador. 2020. The Failure of Industrial Policy: India as a Case Study. UMF Market Trends, Universidad Francisco Marroquín, September. https://trends.ufm.edu/en/report/india-2020/

Bagchi, Sanjoy. 2001. End of Quantitative Restrictions: Unfounded Fears. *Economic and Political Weekly* 36: 1500–02.

Balachandran, G. 1998. *The Reserve Bank of India, 1951–67*. Delhi: Oxford University Press and the Reserve Bank of India.

Baru, Sanjaya. 2016. *1991: How P. V. Narasimha Rao Made History.* New Delhi: Aleph.

Bell, Bernard R. 1965. *India's Economic Development Effort*. Report to the President of the International Bank for Reconstruction and Development and the International Development Association. Volume 1, Main Report. October 1. Washington.

Bhagwati, Jagdish. 1962a. The Case for Devaluation. *Economic Weekly,* August 14: 1263–66.

Bhagwati, Jagdish. 1962b. Indian Balance of Payments Policy and Exchange Auctions. *Oxford Economic Papers* 14: 51–68.

Bhagwati, Jagdish, and Padma Desai. 1970. *India: Planning for Industrialization*. New York: Oxford University Press for the OECD.

Bhagwati, Jagdish, and T. N. Srinivasan. 1975. *Foreign Trade Regimes and Economic Development: India*. New York: Columbia University Press for the NBER.

Boughton, James M. 2012. *Tearing Down Walls: The International Monetary Fund 1990–1999*. Washington: International Monetary Fund.

Bown, Chad P., and Patricia Tovar. 2011. Trade Liberalization, Antidumping, and Safeguards: Evidence from India's Tariff Reform. *Journal of Development Economics* 96: 115–25.

Brecher, Michael. 1977. India's Devaluation of 1966: Linkage Politics and Crisis Decision-Making. *British Journal of International Studies* 3: 1–25.

Cerra, Valerie, and Sweta Chaman Saxena. 2002. What Caused the 1991 Currency Crisis in India? *IMF Staff Papers* 49, vol. 3: 395–425.

Chaudhry, Praveen, Vijay Kelkar, and Vikash Yadav. 2004. The Evolution of Homegrown Conditionality in India: IMF Relations. *Journal of Development Studies* 40: 59–81.

Chelliah, Raja. 1991. *Interim Report of the Tax Reforms Committee*. Department of Revenue, Ministry of Finance. Delhi: Government of India.

Chenery, Hollis, and Nicholas Carr. 1973. Foreign Assistance and Development Performance, 1960–1970. *American Economic Review* 63: 459–68.

Congress Party. 1991. *Election Manifesto: General Election, 1991*. New Delhi, n.p.

Das, Deb Kusum. 2003. *Quantifying Trade Barriers: Has Protection Declined Substantially in Indian Manufacturing?* Working Paper No. 105. New Delhi: Indian Council for Research on International Economic Relations.

Dash, Kishore C. 1999. India's International Monetary Fund Loans: Finessing Win-Set Negotiations within Domestic and International Politics. *Asian Survey* 39: 884–907.

Datt, Gaurav, Martin Ravallion, and Rinku Murgai. 2019. Poverty and Growth in India over Six Decades. *American Journal of Agricultural Economics* 102: 4–27.

Desai, Ashok. 1993. *My Economic Affair*. Delhi: Wiley Eastern.

Desai, Ashok V. 1999a. *The Price of Onions.* New Delhi: Penguin Books.

Desai, Ashok V. 1999b. *The Economics and Politics of Transition to an Open Market Economy: India*. OECD Development Centre Working Paper No. 155. Paris: OECD Publishing.

Engerman, David. 2018. *The Price of Aid: The Economic Cold War in India.* Cambridge MA: Harvard University Press.

Finger, J. Michael, Merlinda D. Ingco, and Ulrich Reincke. 1996. *The Uruguay Round: Statistics on Tariff Concessions Given and Received*. Washington: World Bank.

Frankel, Francine R. 2009. *India's Political Economy: The Gradual Revolution*. New York: Oxford University Press.

Goldberg, Pinelopi Koujianou, Amit Kumar Khandelwal, Nina Pavcnik, and Petia Topalova. 2010. Imported Intermediate Inputs and Domestic Product Growth: Evidence from India. *Quarterly Journal of Economics* 125: 1727–67.

Government of India, Ministry of Commerce. 1978. *Report of the Committee on Import-Export Procedures*. New Delhi. https://the1991project.com/public-repository/committee-reports/report-committee-import-export-policies-and-procedures-1978

Government of India, Ministry of Commerce. 1984. *Report of the Committee on Trade Policies.* New Delhi.

Government of India, Ministry of Finance. 1992. *Economic Survey 1991–92, Part II: Sectoral Developments.* New Delhi: Government Press.

Government of India, Ministry of Information and Broadcasting. 1993. *P. V. Narasimha Rao: Selected Speeches, Vol. 1, 1991–92*. New Delhi: Publications Division.

Government of India, Ministry of Finance. 1994. *Economic Survey 1993–94*. New Delhi: Government Press.

Hasan, Zoya. 2013. *Congress after Indira: Policy, Power, Political Change (1984–2009).* New Delhi: Oxford University Press.

IMF (International Monetary Fund). 1991. India - Use of Fund Resources - Request for Stand-By Arrangement and for a Purchase Under the Compensatory and Contingency Financing Facility. EBS/91/4 , January 7. Washington. https://archivescatalog.imf.org/Details/archive/125103950.

Jävervall, Sebastian, and Roza Khoban. 2025. The Impact of Trade Liberalization in the Presence of Political Distortions. *American Economic Journal: Applied Economics*, forthcoming.

Jenkins, Rob. 1999. *Democratic Politics and Economic Reform in India*. New York: Cambridge University Press.

Johri, Alok, and Mahbubur Rahman. 2022. The Rise and Fall of India's Relative Investment Price: A Tale of Policy Error and Reform. *American Economic Journal: Macroeconomics* 14, no. 1: 146–78.

Joshi, Jayat. 2023. The Pitfalls of Expert Communication: A Case Study of the Devaluation of the Indian Rupee in 1966. Mercatus essay. Arlington VA: Mercatus Center at George Mason University.

Kapur, Devesh. 2004. Ideas and Economic Reform in India: The Role of International Migration and the Indian Diaspora. *India Review* 3: 364–84.

Khatkhate, Deena R. 1977. "Intellectuals and the Indian Polity." *Asian Survey* 17, no. 3: 251–63.

Khatkhate, Deena. 1994. Intellectual Origins of Indian Economic Reform: A Review of Jagdish Bhagwati's *India in Transition: Freeing the Economy* (1993). *World Development* 22, no. 7: 1097–102.

Khatkhate, Deena. 2003. Looking Back in Anger: A Former Insider's View of Economic Policy. *Economic and Political Weekly* 38: 5350–53.

Kirk, Jason A. 2010. *India and the World Bank: The Politics of Aid and Influence*. New York: Anthem Press.

Kochanek, Stanley A. 2007. Liberalization and Business Lobbying in India. In *India's Economic Transition: The Politics of Reform,* ed. Rahul Mukherji. New Delhi: Oxford University Press.

Kohli, Atul. 1989. Politics of Economic Liberalization in India. *World Development* 17: 305–28.

Kotwal, Ashok, Bharat Ramaswami, and Wilima Wadhwa. 2011. Economic Liberalization and Indian Economic Growth: What's the Evidence? *Journal of Economic Literature* 49: 1152–99.

Krueger, Anne O. 1974. The Political Economy of a Rent-Seeking Society. *American Economic Review* 66: 291–303.

Krueger, Anne O. 2008. The Role of Trade and International Economic Policy in Indian Economic Development. *Asian Economic Policy Review* 3: 266–85.

Kumar, Ashutosh. 2008. Dissonance between Economic Reforms and Democracy. *Economic and Political Weekly* 43, no. 1: 54–60.

Kumar, Sanjay. 2004. Impact of Economic Reforms on Indian Electorate. *Economic and Political Weekly* 39, no. 16: 1621–30.

Lewis, John P. 1995. *India's Political Economy: Governance and Reform*. New York: Oxford University Press.

Mason, Edward, and Robert E. Asher. 1973. *The World Bank since Bretton Woods*. Washington: Brookings Institution.

McCartney, Matthew. 2009. 'Episodes' or 'Evolution': The Genesis of Liberalisation in India. *Journal of South Asian Development* 4: 203–28.

Mohammad, Sharif, and John Whalley. 1984. Rent Seeking in India: Its Costs and Policy Significance. *Kyklos* 37: 387–413.

Mohan, Rakesh. 2017a. *India Transformed: 25 Years of Economic Reforms*. New Delhi: Viking Penguin.

Mohan, Rakesh. 2017b. "The Road to the 1991 Industrial Policy Reforms and Beyond: A Personalized Narrative from the Trenches." In *India Transformed: 25 Years of Economic Reforms*, ed. Rakesh Mohan. New Delhi: Penguin Random House.

Mooij, Jos. 2001. Economic Reform and Political Interpretation: A Review of the Literature on the Politics of the Reform Process in India. *Indian Journal of Political Science* 62: 486–518.

Mukherji, Rahul. 2000. India's Aborted Liberalization - 1966. *Pacific Affairs* 73: 375–92.

Mukherji, Rahul. 2013. Ideas, Interests, and the Tipping Point: Economic Change in India. *Review of International Political Economy* 20: 363–89.

Mukherji, Rahul. 2008. The Political Economy of India's Economic Reforms. *Asian Economic Policy Review* 3, no. 2: 315–31.

Nayyar, Deepak. 2016. 1991: Economic Liberalization and Political Process. *Mint*, October 14. https://www.livemint.com/Opinion/l46jd4x7sEnYgxizMcnq3M/1991-economic-liberalization-and-political-process.html

Nayyar, Deepak. 2017. Economic Liberalisation in India: Then and Now. *Economic and Political Weekly* 52 (2): 41–48.

Nayar, Baldev Raj. 1998. Political Structure and India's Economic Reforms of the 1990s. *Pacific Affairs* 71: 335–58.

Ninan, T. N. 2017. The Political Economy of Reforms: The Art of the Possible. In *India Transformed: 25 Years of Economic Reforms*, ed. Rakesh Mohan. New Delhi: Penguin Random House.

Panagariya, Arvind. 2004. India's Trade Reforms. *India Policy Forum 2004*. Washington: Brookings Institution.

Panagariya, Arvind. 2024. *The Nehru Development Model: History and Its Lasting Impact*. New Delhi: Penguin Viking.

Patnaik, Prabhat, and C. P. Chandrasekhar. 1995. Indian Economy under "Structural Adjustment." *Economic and Political Weekly* 30, no. 47: 3001–13.

Patel, I. G. 1987. On Taking India into the Twenty-First Century (New Economic Policy in India). *Modern Asian Studies* 21: 209–31.

Patel, I. G. 2002. *Glimpses of Indian Economic Policy: An Insider's View*. New York: Oxford University Press.

Pritchett, Lant, Kunal Sen, Sabyasachi Kar, Selim Raihan. 2016. Trillions gained and lost: Estimating the magnitude of growth episodes. *Economic Modelling* 55: 279–91.

Pursell, Garry. 1992. Trade Policy in India. In *National Trade Policies,* ed. Dominick Salvatore. New York: Greenwood Press.

Ramesh, Jairam. 2015. *To the Brink and Back: India's 1991 Story.* New Delhi: Rupa.

Rangarajan, C. 2022. *Forks in the Road: My Days at RBI and Beyond.* Delhi: Penguin Random House.

Reserve Bank of India. 2013. *The Reserve Bank of India, Volume 4, 1981–1997*. New Delhi: Academic Foundation. https://www.rbi.org.in/scripts/RHvol-4.aspx.

Rodrik, Dani. 1996. Understanding Economic Policy Reform. *Journal of Economic Literature* 34: 9–41.

Rodrik, Dani. 2014. When Ideas Trump Interests: Preferences, Worldviews, and Policy Innovations. *Journal of Economic Perspectives* 28: 189–208.

Rosen, George. 1985. *Western Economists and Eastern Societies: Agents of Change in Southeast Asia, 1950-1970.* Baltimore: Johns Hopkins University Press.

Sengupta, Mitu. 2008. How the State Changed its Mind: Power, Politics, and the Origins of India's Market Reforms. *Economic and Political Weekly* 43: 35–42.

Sengupta, Mitu. 2009. Making the State Change Its Mind: The IMF, the World Bank, and the Politics of India's Market Reforms. *New Political Economy* 14: 181–210.

Shah, Parth J., ed. 2000. *Friedman on India*. New Delhi: Centre for Civil Society.

Shastri, Vanita. 1997. The Politics of Economic Liberalization in India. *Contemporary South Asia* 6: 27–56.

Shenoy, B. R. 1968. *Indian Economic Policy.* Bombay: Popular Prakashan.

Shourie, Arun. 1966. Allocation of Foreign Exchange in India. Ph.D. dissertation, Syracuse University.

Shourie, Arun. 1975. Economics, Economists, and Policy-Makers: Some Preliminary Hypotheses. *Economic and Political Weekly* 10: 147–56.

Singh, Daman. 2014. *Strictly Personal: Manmohan and Gursharan.* New Delhi: HarperCollins.

Singh, Harsha Vardhana. 2017. Trade Policy Reform in India since 1991. In *India Transformed: 25 Years of Economic Reforms*, ed. Rakesh Mohan. New Delhi: Penguin Random House.

Singh, Manmohan. 1964. *India's Export Trends and the Prospects for Self-Sustained Growth*. Oxford: Clarendon Press.

Singh, Manmohan. 1997. Liberalisation and Globalisation: Where Is India Heading? *World Affairs: The Journal of International Issues* 1, no. 1: 16–42.

Sitapati, Vinay. 2016. *Half Lion: How P. V. Narasimha Rao Transformed India.* New Delhi: Viking Penguin.

Srinivasan, T. N. 1992. Planning and Foreign Trade Reconsidered. In *Foundations of India's Political Economy: Towards an Agenda for the 1990s,* ed. Subroto Roy and William E. James. New Delhi: Sage Publications.

Srinivasan, T. N. 2003. Integrating India with the World Economy: Progress, Problems, and Prospects. In *Reforming India's External, Financial, and Fiscal Policies,* ed. Anne O. Krueger and Sajid Chinoy. Stanford: Stanford University Press.

Tendulkar, Suresh D., and T. A. Bhavani. 2007. *Understanding Reforms: Post-1991 India.* New York: Oxford University Press.

Varshney, Ashutosh. 1999. Mass Politics or Elite Politics? India's Economic Reforms in Comparative Perspective. In *India in the Era of Economic Reforms*, ed. Jeffrey D. Sachs, Ashutosh Varshney, and Nirupam Bajpai. New Delhi: Oxford University Press.

Virmani, Arvind. 2003. India's External Reforms: Modest Globalisation, Significant Gains. *Economic and Political Weekly* 38: 3373–90.

World Bank. 1989. *India: An Industrializing Economy in Transition*. Washington.

World Bank. 2000. *India: Reducing Poverty, Accelerating Development*. New Delhi: Oxford University Press.

PIIE PETERSON INSTITUTE FOR INTERNATIONAL ECONOMICS

© 2025 Peterson Institute for International Economics. All rights reserved.

This publication has been subjected to a prepublication peer review intended to ensure analytical quality. The views expressed are those of the author. This publication is part of the overall program of the Peterson Institute for International Economics, as endorsed by its Board of Directors, but it does not necessarily reflect the views of individual members of the Board or of the Institute's staff or management.

The Peterson Institute for International Economics (PIIE) is an independent nonprofit, nonpartisan research organization dedicated to strengthening prosperity and human welfare in the global economy through expert analysis and practical policy solutions. Its work is funded by a highly diverse group of philanthropic foundations, private corporations, and interested individuals, as well as income on its capital fund. About 12 percent of the Institute's resources in 2023 were provided by contributors from outside the United States.

A list of all financial supporters is posted at
https://piie.com/sites/default/files/supporters.pdf.