Life is a popularity contest that everyone is losing but this one we are winning (fingers crossed).
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1991 economic crisis

A Timeline Of How India Changed A Moment Of Crisis Into One Of Opportunity

The crisis (1947-1991)

1 Having freed itself from British Raj in 1947, India took up the cause of socialism under the then PM Jawaharlal Nehru. For government intervention was seen as a way to upgrade the Indian economy that had been left impoverished by the capitalistic British rule.

2 As a consequence, License Raj or Permit Raj (1947-1990), a system of regulations and licenses was established. This impeded the establishment and running of businesses, for it required private companies to seek consent from about 80 or above government agencies to begin production, which was regulated further.

3 This form of centralised planning, along with a draconian set of economic controls on foreign trade, production prices, and capital flows, needless to say, led to economic stagnation. Indian economy, from 1950s to late 1980s, "grew" at an average rate of only 3.6%, with per capita income growth averaging at 1.3%.

4 Two wars (Indo-Pak war in 1965 and the Sino-Indian war in 1967), and severe droughts further battered the country. India needed monetary aid to survive, so the Indian government approached the IMF and World bank. In return, India was asked to open up its economy, lower tariffs and devalue the rupee to boost exports. An attempt was made to achieve these, but the internal political backlash forced the government to stick to its original restrictive methods.

5 It was now clear that India lagged a lot behind its East and Southeast Asian neighbours. As a result, the governments of Indira Gandhi and subsequently Rajiv Gandhi began pursuing economic liberalisation in the 1980s by relaxing trade-related constraints. These reforms lead to a momentary increase in the average GDP growth rate in the 1970s from 2.9% to 5.6%.

6 Alas, the Indian political scene began to implode in the late 1980s. The Bofors scandal, IPKF misadventure, Shah Bano case, etc., all smeared the image of Rajiv Gandhi's government, hindering all the liberalisation efforts, and distressing the Indian economy further.

7 India was now faced with the ultimate storm, the Balance of Payments crisis. The country was importing more than it was exporting, for our primary buyer, the Soviet Union, was now in turmoil and ended up dissolving in 1991. This trade deficit was further exacerbated by the Gulf War (1990–1991) that caused the price of crude oil to skyrocket. As a result, India's foreign exchange reserves depleted (1 billion USD by January 1991) to the point that the country could barely finance two weeks' worth of imports.

8 Not to mention, the government expenditure was more than the total earnings, owing to which the fiscal deficit peaked, too; it rose from 9% in 1980-81 to 12.7% in 1990-91. The internal debt also rose, from 35% in 1985 to 53% in 1990-91.

9 India finally had to go to the IMF and the World Bank to ask for assistance, which promptly asked India to pledge 20 tonnes of gold to the Union Bank of Switzerland and around 47 tonnes to the Bank of England and Bank of Japan in return for an emergency loan of about 2.2 billion USD.

The recovery (1991-Till Now)

9 As the news about the bailout deal spread, it resulted in a huge public outcry. This led to the fall of the then Chandra Shekhar led government, with PV Narasimha Rao taking over as the new Prime Minister of India and Manmohan Singh as the Finance Minister in June 1991. What followed next was what we call the liberalisation of India.

8 On July 3, 1991, the RBI devaluated the Indian rupee by 9% and a subsequent 11% with respect to the USD, in an attempt to make exports cheaper and accordingly, stock up the depleted forex reserves once again.

7 License Raj was abolished, loosening import restrictions and further scrapping production licensing. The industries were now free to decide what to produce and in what quantity.

6 Industrial licensing for all major industries except for some 18 industries "related to security and strategic concerns, social reasons, problems related to safety and overriding environmental issues," was completely abolished.

5 The 1969 Monopolistic and Restrictive Trade Practice (MRTP) Act, wherein firms with assets of 25 crore INR or more (changed to 100 crore INR in 1985) were put under government supervision, was repealed, too.

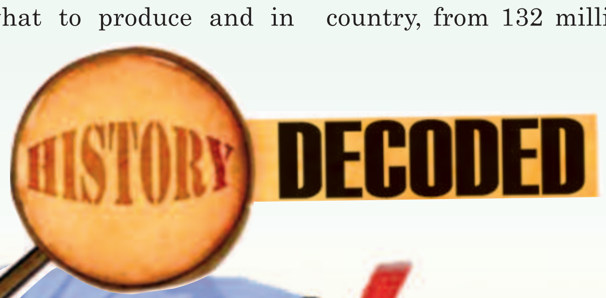
4 To attract foreign investments and to further boost the Indian industrial scene, all the investments of up to 51% foreign equity participation were approved in advance. This resulted in an increase in the foreign investment in the country, from 132 million USD in 1991-1992 to 5.3 billion USD in 1995-1996.

3 Bank interest rates were liberalised, allowing market forces to dictate them instead of the government. The statutory liquidity ratio and cash reserve ratio were also significantly reduced, from 38.5% and 15% respectively to 25% and 10% respectively.

2 The government also started selling some of its public sector companies to the private sector, bringing in more cash and also, at the same time, dismantling public monopolies.

1 Owing to these pathbreaking liberalising reforms and the subsequent adjustments, the GDP of India managed to rise from a meagre 266 billion USD in 1991 to around 3 trillion USD in 2019. Though liberalisation and economic reforms still have a long way to go, one cannot simply overlook the impact they had back then and still continue to have on the Indian economy!

A textbook case of turning challenges of any sort into outstanding opportunities!



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