

Trade. Reforms began with the easing of capital-goods in 1991. The highest tariff rate was cut in 1993 from 110% to 85% and then in 1994 to 65%. In 1995, duty-free imports were allowed with the aim of promoting exports of capital goods. Also in 1995, automatic approval became possible for 100% export-oriented units and units in export-processing zones.

Banks, the stockmarket and infrastructure. Major banks are nationalized in India. Beginning in 1992, banks were allowed more freedom to lend money and guidelines were issued for setting up private banks. 1993 saw further easing of restrictions on banks in India. Also in 1993, transactions on the Over the Counter Exchange began. In 1994, the National Highway Act was amended.

3. The Road Ahead

Privatization. The major challenge that the Indian policymakers have yet to tackle concerns the privatization of state-owned enterprises (SOEs) and the restructuring of the huge government machinery. India allowed the creation of major entitlements such as secure jobs in the loss-making public enterprises, and the bloated bureaucracies in state and central governments. Reforms have so far not attacked these entitlements, which continue to bleed the government budget and cast a shadow over the sustainability of the limited reforms underway. China's experience has been to reform around SOEs. But for reforms to go deeper India will have to launch privatization programmes.

Factor market reforms. Although, the land market has been virtually distortion free in India, there still remain major distortions in the market for labour and in the capital market. Concerning the organized sector, India's labour legislation goes back to the 19th century. The antiquated laws and the implicit commitment of a job for life in the government and public enterprises account for an inflexible labour market in India. The reform of labour market in India is urgently needed. Capital markets in India have to work through the nationalized banking sector. The reform of the nationalized banking system is essential to cope with the move from the control and command economy to the market.