2. Reforms from 1991 to 1995

The socialist regulation and import/export license-raj in a democratic India proved to be frustratingly difficult. However, over time there sprang up vested interest groups, including businesses, politicians and bureaucrats. These lobby groups got used to partaking the rents generated in an economy driven by the philosophy of self-reliance and import-substitution.

The deregulation and reform process is aimed at restructuring the Indian economy and make it turn on the basis of private ownership of property and a competitive market system. No other democracy the size of India has attempted such major reforms. The potential scope and extent of reforms in India is as enormous as in China, though India is at an earlier stage. The Communist party in China could simply turn on the reform process in 1979. The democratic process in a developing country, such as India, is bound to be bumpy and take time.

De-licensing. In 1991, the Congress government began by abolishing licensing requirements, except for 15 industries (by 1993). In 1994, industrial licensing for bulk drugs were abolished.

Currency. The Indian currency, the rupee, was devalued by 18% in 1991 and was made partly convertible in the following year before it was floated on current account in 1993. The rupee has further depreciated in 1995. So far, the Indian government has refrained from supporting the rupee.

Foreign direct investment. FDI reforms in 1991 began by raising the stake foreign equity could take in enterprises in India. In 1992, private investment was allowed in the power sector. First private sector power projects came on stream in 1994. Basic telecom and other value-added services were opened to private sector in 1994. In 1995, cellular licenses were awarded and basic telecom services tenders were opened. By 1995, India's central bank had set up a "single window" for almost automatic approval of foreign investments up to 51% of equity in 35 industries that cover the bulk of manufacturing in India.