Shortly after Mr. Rao's Congress Party won national elections, his government launched economic reforms in July 1991. The pace of liberalization since then has been gradual. Among other factors, policymakers in India confronted the following circumstances.

- The lack of economic performance relative to other east Asian countries, especially as compared to China.[1]

- The dissolution of the Soviet system and bleak prospects for the nonaligned countries as a group.

- An increasing rejection of the command economy philosophy, which was actually alien to the traditional Indian ethos of an open commercial society. Indian silk, cotton and spices were prized even by the Roman empire. India has had trade links, based on private enterprise, with east Asia and the Middle-east for more than two thousand years.

- The realization that direct investment by non-Indians is essential to attract stable investment that would bring in Western technology. NRI investment, which had the benefit of not upsetting Indian nationalists and Hindu fundamentalists, was neither large nor stable. Consequently, India would have to ease up its nationalistic angle on foreign direct investment. Having lost four decades to the experimentation with the management of the economy via five-year plans, Indian businesses needed to catch up to world-class management skills, which could be learnt through joint ventures with Western firms.

- Given the pace of globalization and spread of the market economy ideology across countries, India's federal government would have to begin reforms to avoid falling behind regional powers such as China and the block of other east Asian countries.

[1]On the latter point, see Jagdish Bhagwati, ***India in Transition: Freeing the Economy***, Oxford University Press, 1993.