INTRODUCTION

The story of almost every developing country in the world today is a story of breaking free from a mother country (decolonization) and learning to expand their economic and social capacity (development). Doing so involves struggles against many foes, both internal and external. Not only must a national liberation movement decide how to confront a foreign power endowed with considerable resources, but it must also convince local citizens to join in and figure out what to do with those who do not. But achieving independence for some countries has proven to be the easy part. The next step involves organizing a state, establishing proper roles for the government, and finding ways to obtain and channel resources to the best targets.

Decolonization began almost as soon as the first empires were established. In some ways, the collapse of the Roman Empire could be seen as the emergence of numerous new political entities. Generally we focus on modern imperialism—specifically the period of global conquest that began in the late 18th century and involved the establishment of European control over Africa, Asia, and Oceania. It was these regions that, beginning in the late 1940s, were able to take advantage of the relative decline in European power after World War II to negotiate or fight their way to sovereignty for their new nation. This was done in almost every conceivable way and with broad range of outcomes. For example, as we will see, Indians were largely able to pressure the British to withdraw by means of a series of large-scale strikes, peaceful protests, and civil disobedience—known collectively as “non-violent resistance.” On the other extreme, Algerians fought house to house for six years against determined French resistance, resulting in almost a half million casualties on both sides.
In most cases, leaders of newly elected or appointed indigenous governments negotiated their independence over a period of time, then peacefully stood side-by-side with representatives of the colonial power as European flags were lowered and local flags were raised. These new states quickly joined the United Nations as fully independent, sovereign states. During the 1960s, more than forty new states became members, raising the organization’s total membership from eighty-two to 126 (UN 2008). Some did not achieve complete independence right away or they retained special ties to the mother country. Canada, for example, achieved home rule in 1867 but was not fully sovereign until 1982. It still maintains its membership in the British Commonwealth—an economic and political organization designed to give former British colonies special privileges. Palau, administered by the United States for thirty years under UN auspices, became independent in 1978 and is now governed under a “compact of free association” with the United States, giving the United States responsibility for its national defense.

As was mentioned, achieving independence and becoming a member of the UN was the easy part for some countries. Some slipped into economic and political chaos almost as soon as their new flags were raised. Belgian Congo was granted independence precipitously in 1960 in the face of an increasingly violent independence movement. Only the thinnest veneer of government was in place as the Belgians left. Congolese soldiers rose up against the few Belgian officers who had remained behind to help create an indigenous army. This prompted a Belgian re-intervention, Belgian support for a rival government in the south, and a year-long civil war followed by UN peacekeeping. Stability did not come until Mobutu Sese Seko—one of the world’s most corrupt and ruthless dictators—seized power in 1965 (Callaghy 1984).

Other newly independent countries experienced precipitous economic collapses requiring emergency assistance from abroad—often from the former colonial ruler. Within two years of its independence from Pakistan, Bangladesh experienced a catastrophic famine, for example. But most enjoyed positive, if not sustainable, growth. Far more common was the emergence of dependent economic relations with the outside world, based on heavy reliance on a few export markets, foreign capital, and foreign technology.

To address this problem of dependency, and to establish themselves as the central authority in the new state, governments across the developing world adopted state-centered economic strategies. The problem they faced was deciding what the goal should be. For some states it was merely economic independence. For others it was overall economic growth, as measured by the gross national product divided by the total population. Still others imagined an end point where all the citizens of the country would have their basic needs met and be productive members of the economy. These advocated the use of UN Development Program’s “human development index” to measure development. “The HDI measures the overall achievements of a country in three basic dimensions of human development—longevity and health, education and knowledge, and a decent standard of living” (Dutt 2006, 120). A few have even gone so far as to define development as the “self-actualization” of all of their people—the achievement of a deeper and more meaningful sense of self and fulfillment. As envisioned by Amartya Sen, this is nothing less than genuine personal and societal freedom (Sen 1999; Dutt 2006, 157).
India before Independence

Regardless of their ultimate aim, almost every newly independent country’s government opted for increased economic independence and self-reliance. They expanded the size of the public sector, hiring large fractions of the citizenry into government jobs. They restricted foreign imports and foreign investment as a matter of national policy and directed considerable money into local industry, often nationalizing foreign assets. One of the more extreme examples of this is the Saudi Arabian government’s decision in 1973 to buy controlling interest in Aramco, an American-owned oil company that had been operating in the country since the 1930s. Control of oil exports has generated untold wealth and power for the House of Saud. Fidel Castro seized control of American and other foreign assets in Cuba without compensation in the 1960s after his successful Communist revolution. Most governments, such as Mexico, found a middle ground by permitting foreign firms to operate on condition of increased local ownership and management, as well as a requirement to keep more profits in the country.

During the 1980s, a major financial crisis prompted most developing countries to pursue public loans from Western government and the International Monetary Fund. These actors had always been skeptical of the nationalist approaches to development and instead advocated a more classically liberal approach of limited government and increased free trade and investment. They used their new leverage to push governments into a variety of policies, including selling off state-owned firms (privatization), reducing public spending—especially of programs designed to prop up inefficient companies, lowering barriers to foreign goods and capital, and lowering the values of their currencies so they more correctly reflect the strength of the national economy. The result has been a dramatic increase in foreign investment in the developing world, although not necessarily a dramatic increase in economic growth or public welfare. In many cases this is due to financial mismanagement and even corruption. But some advocates of the new approach, such as Joseph Stiglitz, formerly of the World Bank, have even questioned whether it will ever work, even if implemented correctly (Stiglitz 2003).

The experience of India will help us better understand the dilemmas nations face as they strive for independence from a colonial master only to find they must now struggle to define their economic future.

INDIA BEFORE INDEPENDENCE

Indian civilization is more than 8,000 years old and has been conquered and occupied by a dozen foreign nations. As a result, Indian civilization is an amalgam of much of human civilization with a result that is nonetheless unique and distinctive (Bose & Jalal 2004, 16). Every major religion is represented, as are many of the world’s races and cultural traditions. Key influences, however, are those of the Aryans in 1500 BC, who introduced Hinduism and the caste system; the Mughals in the 1500s and 1600s, who brought Islam and strong central government; and the British in the 1700s, who brought parliamentary government and the English language, among other things. Taken together, India is uniquely positioned to interface with the modern world economy (Dutt 2006, 13). This does not mean, however, that it has always done so
successively. India has found that interacting with the outside world can be extremely painful and has therefore displayed considerable ambivalence.

Although they established democratic institutions, built a nationwide network of railroads, and introduced modern technology to India, the British, who had arrived in the early 1600s and established control over most of the sub-continent of South Asia by 1800, were a mixed blessing at best. They began as traders and businessmen under the East India Company, one of the world’s first multinational corporations. As their control increased, spreading from east to west, the British Crown directed their activities more and more directly until 1858 when India was annexed as a colony after the suppression of an uprising of Indian soldiers against their British commanders (see Figure 15.1). The British took over large tracts of land to cultivate cash crops for export: indigo, cotton, jute, and opium. These cash crops generated few benefits to Indian farmers (Dutt 2006, 129). In addition, the British promoted the importation of English textiles into India under a free trade policy. Because local cottage industry in textiles could not compete with the very efficient mills in Birmingham, many Indians lost their livelihoods (Dutt 2006, 131).

By the 20th century, British colonial officials had spread throughout the sub-continent, governing mostly indirectly through a network of English-speaking Indian civil servants. India had become essential to the British Empire, both politically and economically, as the trade surplus between Britain and India helped compensate for trade deficits with the rest of the world. Likewise, during both World War I and II, the British depended on Indian soldiers to fight (Bose & Jalal 2004, 102).
On the other hand, with these military sacrifices added to an increasingly depressed economy, conditions of local Indians were difficult—except for a brief period during World War I when the British were too distracted to maintain full control over the region. The experience of life without the British presence made their full return in the 1920s deeply resented. Beginning in 1921 under the leadership of Mohandas Gandhi and Jawaharlal Nehru, a non-violent campaign to push them out once and for all took hold (Dutt 2006, 132).

Gandhi’s campaign, applying “satyagraha” (soul-force), was dramatic and ambitious. It consisted of unifying the Indian people through active recruitment at the local level into the Congress Party, followed by a series of boycotts, demonstrations, strikes, and other forms of civil disobedience aimed at exposing the violence inherent in the system (Sharma 1999, 67). The task was made more difficult by the lack of unifying cultural identity among Indians and the resistance of British colonial officers. Muslims in particular sought to protect themselves from what they thought would be a future nation dominated by nationalistic Hindus, whereas most of those living in rural areas did not speak Hindi or English and had little concept of what a unified country would do for them. Still others were attached to traditional monarchies that hoped to become fully independent of everyone.

Ultimately, the various efforts to expand Indian influence in the central and local government failed to appease those calling for independence, and so in 1942, the British formally began the process of preparing India for the British departure. The fact that the ultimate removal of colonial rule was generally peaceful (at least so far as Indian–British relations were concerned) meant that existing political and economic institutions could carry over from one regime to the next with a minimum of disruption—something many newly independent countries did not enjoy. Further, it is interesting to note that because the British allowed Indians to participate in governance in a variety of parliamentary bodies, and many of India’s elite were trained in the finest British universities, Indians were able to manage and even reform these institutions with little difficulty (Sharma 1999, 71). In addition, Nehru and Gandhi both endeavored to ensure that the new government would be secular, meaning that no one religion would have a position of privilege. The state would not support a particular religion, it would not make religious affiliation a condition of appointment, it would allow members of all faiths to be free to practice and proselyte, and so forth. Conscious efforts were made to provide each religious group a sense of engagement with the new government. That the country has held together for this long is a testament to the effectiveness of these early nation-building initiatives (see Figure 15.2).

This said, Nehru was unable to persuade a large percentage of Muslims to stay in the country, and so at the same time as India was brought into the world, the state of Pakistan, including both modern Pakistan and Bangladesh, was also born. Shortly after independence, thousands died in the border violence between Muslims fleeing India and Hindus fleeing Pakistan. A full-scale war continued for two years. In Kashmir, a Hindu king agreed to join the state of India in spite of his kingdom being inhabited mostly by Muslims. Pakistan has claimed a right to govern the territory, with tensions flaring into full-scale war in 1965 and 1971. Pakistan has supported an ongoing rebellion against Indian forces in Kashmir since 1989.
CHAPTER 15  Decolonization and Development: India Rising

INDIA UNDER NEHRU

Gandhi never held political office as a matter of choice. Rather, Nehru was India's first Prime Minister in 1947 at the head of the Congress Party (see Table 15.1). By this point the Party had no governing program or ideology, but was by far the most inclusive and popular and was able to take credit for the country's independence. Nehru's goals were three-fold at the outset: (1) draft a constitution and secure public approval for it; (2) in the process, ensure that all Indians would feel included in a secular state; and (3) dramatically increase economic growth with an eye to reducing poverty. His concern was to create a new state that would enjoy both political and economic stability—the goal of virtually all governments of new states.

The Constitution was approved in 1949, just two years after independence, and established a federal government with considerable powers reserved to the central government, as well as a bicameral legislature and independent judiciary including a constitutional court to resolve disputes over interpretation of the new document.
English was adopted as the official language of the country on the grounds that doing so did not privilege any of the local or native languages. It was also spoken by the country’s educated elite who were leading the country.

The document itself provided important freedoms to the Indian people, including equal rights, freedom from exploitation, freedom of religion, freedom of culture and education, and a ban on “untouchability.” This last item meant that members of the lowest caste who were shunned and relegated to the most degrading jobs could have access to all government services and posts and could not be discriminated against by private actors (Dutt 2006, 54). Note that this does not mean that Indians have lived by these norms, particularly in their relations with each other. But it does mean that Nehru’s inclusive, secular conception of the state prevailed in 1949 and continues to heavily influence Indian politics today.

On the economic front, Nehru initially hoped to expand India’s economy far beyond the British legacy and lift the millions of India’s rural workers out of poverty. The effort would be Herculean in scope since poverty was endemic, industry anemic, and agriculture distorted by years of British rule and exploitation. Roughly two fifths of Indians lived below the poverty line, meaning that they were at risk of serious disease or hunger. They were victims of famine repeatedly and had few prospects of a better life. The vast majority of rural dwellers had either no land or such small tracts that they could not feed themselves from it. Three fifths of those living in the countryside owned 6% of the arable land in 1947. Their situation was reinforced by lack of education, lack of social status (many were untouchable), lack of access to power, and lack of access to credit (Sharma 1999, 157).

<table>
<thead>
<tr>
<th>Leader</th>
<th>Period</th>
<th>Party</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jawaharlal Nehru</td>
<td>1947–1964</td>
<td>Congress</td>
</tr>
<tr>
<td>Lal Bahadur Shastri</td>
<td>1964–1966</td>
<td>Congress</td>
</tr>
<tr>
<td>Indira Gandhi</td>
<td>1966–1977</td>
<td>Congress</td>
</tr>
<tr>
<td>Morarji Desai</td>
<td>1977–1979</td>
<td>Janata</td>
</tr>
<tr>
<td>Charan Singh</td>
<td>1979–1980</td>
<td>Janata</td>
</tr>
<tr>
<td>Indira Gandhi</td>
<td>1980–1984</td>
<td>Congress</td>
</tr>
<tr>
<td>Rajiv Gandhi</td>
<td>1984–1989</td>
<td>Congress</td>
</tr>
<tr>
<td>V.P. Singh</td>
<td>1989–1990</td>
<td>Janata Dal</td>
</tr>
<tr>
<td>Chandra Shekhar</td>
<td>1990–1991</td>
<td>Janata Dal</td>
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<tr>
<td>A.B. Vajpayee</td>
<td>1996</td>
<td>BJP</td>
</tr>
<tr>
<td>A.B. Vajpayee</td>
<td>1998–2004</td>
<td>BJP</td>
</tr>
<tr>
<td>Manmohan Singh</td>
<td>2004+</td>
<td>Congress</td>
</tr>
</tbody>
</table>

Full terms are shaded.
The aim of India’s planners in the 1950s was to increase the investment rate, which in turn required increasing savings and improving the investment climate (Bhagwati 1998, 27). The state would fill the gaps. In 1948, the Industrial Policy Resolution passed by the legislature established the legal framework for a mixed economy in which private firms would coexist with state-owned corporations. The state would have exclusive powers over “schedule A” industries, including munitions and armaments, atomic energy, iron and steel, heavy machinery, mining, machine tools, coal, transportation (except automobile and truck), telecommunications, and electrical power. Private firms could support state plans in “schedule B” industries, such as chemicals, drugs, fertilizers, rubber, and so forth. The rest were left to private industry (schedule C) (Dutt 2006, 105). New firms had to be licensed, and there was a limit to the total number of licenses. This continued until 1970.

The resources and supports provided to these major industrial sectors were considerable, although they went to only relatively few firms and factories. The Tata Group was a special beneficiary, enabling the well-established firm to become dominant in the Indian economy. But these resources were not always put to the most efficient use. Expensive, modern equipment was imported at great cost, but was not always used productively, leading to a net loss to the economy. The lack of competition from foreign firms—not to mention would-be local start-ups—made the firms less nimble and innovative. The key problem, however, was the lack of consumers with enough money to buy all the goods. Once the government decided to emphasize self-reliance over international trade, the firms could not sell off their inventories and prices dropped. In addition, they could not expand fast enough to provide jobs for India’s ever-growing population. As a result, India’s economy grew by a mere 3% a year during the 1950s (Sharma 1999, 80).

Some question whether this pro-growth strategy was wise, given the poverty rate. In response, senior economist Jagdish Bhagwati commented:

I have often reminded the critics of Indian strategy, who attack it from the perspective of poverty which is juxtaposed against growth, that it is incorrect to think that the Indian planners got it wrong by going for growth rather than attacking poverty: they confuse means with ends. In fact, the phrase ‘minimum income’ and the aim of providing it to India’s poor were very much part of the lexicon and at the heart of our thinking and analysis when I worked in the Indian Planning commission in the early 1960s. (Bhagwati 1998, 25)

Although efforts were made to redistribute land from those with land to those without it, they generally failed. Wealthy elites were able to challenge the efforts in court, and in some cases were able to clarify their property rights, which in turn allowed them to evict families that had squatted on the land for generations. Efforts to place a ceiling on the size of one family’s lands were circumvented by clever title manipulations. Even where the state dispossessed certain land owners, they were able to reap windfall profits from the sale to the government, and the lands were often retained by the state rather than redistributed (Sharma 1999, 110–118). Even the development assistance provided to poor villages was largely diverted. So decades later, the same percentage of Indians were still living below the poverty line in 1980 as in 1950 (World Bank 2003, i).
INDIA UNDER INDIRA

Nehru died in 1964 having helped create and establish a new nation, complete with a constitution and a functioning economy and society. Upon his death, his daughter Indira Gandhi (no relation to Mohandas) was shortly acknowledged as the leader of the Congress Party, and in 1966 she assumed the mantle of the Prime Minister’s office, a position she would hold for sixteen years.

Her political stature was uncertain until she decided to side with the left-leaning elements in the Party and push a more populist, interventionist economic strategy with the intent of strengthening the central government and increasing India’s self-reliance (Hardgrave & Kochanek 1993, 362). Socialism was enshrined in the Constitution, banks were nationalized, as were the coal industry, insurance companies, and many textile firms. Perhaps most significant, the government moved to restrict foreign investment through the Foreign Exchange Regulation Act in the name of India’s economic and political autonomy. By the mid-1970s, India had the most heavily regulated economy outside the Soviet bloc (Hardgrave & Kochanek 1993, 363).

The result was substantial political success for Gandhi. She won resounding victories at the polls in 1971 and 1972, aided in part by a dramatic military victory over Pakistan in December 1971.

The other side of her development program was agricultural modernization. The result has been called the “Green Revolution,” and it enabled India as a country to become self-sufficient in food. The basic premise that guided the policy was that land tenure and ownership issues would need to wait until after new technologies and techniques were used to increase yields. The state provided low-cost fertilizers, high-yield seeds, and chemical pesticides (including some, like DDT, that had been banned in the West). The results were spectacular. Within twenty years, the yield per planted acre increased by 50%, particularly in rice and wheat production (Sharma 1999, 138–143).

Although the total output of grains has increased dramatically, this has not meant that the poor are eating better. On the contrary, the proportion of Indians who are living below the poverty line and eating less than 2,000 calories a day (40%) was still the same in 1990 as it was in 1950 (Sharma 1999, 29). This stems from the fact that although the technologies of the Green Revolution were made widely available in the 1960s, only a few were able to make use of them. Doing so required access to those in power, an understanding of global markets, technological sophistication, and a minimum amount of land. The result was that a new class of farmers emerged during the Green Revolution: the capitalist. Neither the traditional aristocracy nor the landless tenant farmers or day laborers took advantage of the opportunity—the former by choice and the latter by default. But the more inventive large land owners were able to fully implement the new programs and reaped remarkable rewards, moving from production for the local market to selling for export. These wealthy farmers went on to become a potent political force, providing considerable support for anti-Congress political parties such as Janata.

At the same time, the macroeconomic reforms were causing their own sort of damage. Foreign investors and creditors responded unfavorably to the programs, and domestic corruption increased dramatically as business people sought ways to get...
through the expanding red tape. Inflation was increasing and shortages were common. Add to this the threat Indira Gandhi posed to state-level governments and elites and it is easier to understand why both the poor and the rich across the country engaged in widespread protests during 1974 (Chadda 2000, 43). The final crisis came when a high-level court ruled that Gandhi had violated election laws in her 1971 campaign and that her victory was therefore invalid. Her choice was to resign or suspend the Constitution (Kulke & Rothermund 1986, 324). She opted for the latter.

From 1975 to 1977, Indira Gandhi governed directly without resort to legislative approval and managed to restore order in the streets. But none of this improved her standing with the people of India. She opted to cancel the required 1976 elections and instead imprisoned a number of her most determined political opponents. She gave more powers to her son Sanjay, who rose to become her most trusted advisor during this period. She also imposed a ban on strikes and other strong economic measures that helped bring prices down. But civil liberties were seriously infringed upon and opposition to her government remained high. She decided to hold elections in 1977, miscalculating that conditions in the country and her standing with the public had improved enough to win. She also waited until a few weeks before the vote to release her political opponents (Kulke & Rothermund 1986, 325). She lost the election anyway and in 1977 the opposition Janata coalition took power—the first non-Congress government since India’s independence.

Janata only governed for three years before being replaced by Congress once again. Janata liberalized Indian economic policy, continuing policies that Indira had begun a few years earlier. In the agricultural sector, it removed state controls over agriculture, cutting taxes on grains, cutting tariffs on fertilizer imports, and so forth (Sharma 1999, 203). In the macroeconomic realm, fewer changes were made. Many of the licenses, investment restrictions, and trade protections remained.

The Janata government was inherently fragile, having been an assemblage of regional and state-level parties and elites—mostly a coalition of necessity to block another Gandhi term. Once they came to power, their ideological and personal differences became clear and prevented them from governing for an extended period (Chadda 2000, 45). Even though they tried to establish control over state governments, the effort was in vain, and in 1980 Congress again controlled the national legislature and many state governments. Congress would remain in control even after the death of Indira Gandhi (by assassination) in 1984 and the assumption of her post by Rajiv Gandhi.

**INDIAN ECONOMIC LIBERALIZATION**

Rajiv Gandhi shared a tendency for centralizing power with his mother, and although the Congress Party leadership was reluctant to turn over the party to him, once they had done so, the transition was final. By 1989, his reputation for arrogance and aloofness, combined with the unequal effects of his economic liberalization policies, resulted in Congress once again being turned out for a time by a Janata coalition. In 1991, while campaigning to return his party to power, he was assassinated.
In 1985, Rajiv played a pivotal role in the seventh five-year plan (1985–1990), which aimed to “improve productivity, absorb modern technology and promote fuller utilization of capacity. To provide larger scope to the private sector . . .” (Dutt 2006, 110). Janata was committed to maintaining some of these reforms.

But it was the arrival in power of P.V. Narasimha Rao in 1991 as the new and relatively untested leader of the Congress Party that things began to change dramatically. He appointed as his Finance Minister the economist Manmohan Singh, who had written the proverbial textbook on liberal economic growth. He left a successful academic career to work his way up the Finance Ministry in India and as a result understood not only the theory but the practice and politics of economic policy. He also had extensive contacts in the international financial community, which would come in handy as India faced one of its worst balance of payments crises during his tenure.

In 1991, a convergence of events gave Singh the opportunity of a lifetime to dramatically alter India’s economic policy. The new team of Congress leaders was sincerely committed to liberalization. They had witnessed the unprecedented growth of Asian states such as South Korea and Taiwan and believed that fears of neo-imperialist cooptation—something that drove the policy of self-reliance in the past—were overblown. On the contrary, they had concluded that India’s policy of producing domestically what could be more cheaply obtained from abroad had led to increased poverty and high levels of both inefficiency and corruption. They concluded that only by competing on the world stage could the country achieve high levels of economic growth and ultimately be seen as a major power by the rest of the world. They hoped this could be done without sacrificing the goals of poverty alleviation and equitable income distribution (Dutt 2006, 112).

Second, India faced a balance of payments crisis that threatened to completely deplete its financial reserves. Its imports so far outstripped its exports that the nation as a whole lacked the resources—especially internationally respected “hard” currency (viz. dollars, yen, marks)—to pay the difference and was forced to go to the International Monetary Fund (IMF) to obtain a loan. Fortunately, India had not waited until the crisis was a catastrophe, and so it was able to negotiate a fairly generous deal (Stiles 1991). Nonetheless, the IMF required India to undertake dramatic economic reforms as a condition of receiving the funds. India agreed, in part because doing so gave Singh and other politicians greater leverage with critics back in India. They could always say that the more painful measures were “forced” upon them by the IMF and that the country had no choice but to carry them out (Bhagwati 1998, 35–36).

As described by two of Singh’s strongest supporters:

Mannmohan Singh set about the task with the zeal of a reformer. Wide ranging tax reforms were fitted into a scheme of fiscal stabilization, and there was some action on the expenditure front as well. Containment of defence expenditures, cuts in fertilizer subsidies and slow and systematic efforts to reduce the interest burden on the budget were some of the more significant achievements. (Ahluwalia & Little 1998, 4)
With respect to the specifics of the reform measures, F.M. Singh said in August 27, 1991:

The thrust will be to increase the efficiency and international competitiveness of industrial production and to utilize foreign investment and technology to a much greater degree than in the past, to improve the performance and rationalize the scope of the public sector, and to reform and modernize the financial sector so that it can more efficiently serve the needs of the economy. (Datt & Sundharam 2001, 231, cited in Dutt 2006, 111)

Foreigners were permitted to own up to 51% of industries (later increased to 74%) in certain high-priority areas such as high-tech industries or production that required large-scale investment to be successful. “Sick” firms were allowed to go bankrupt, even if they were state-owned. State-owned firms that were productive were given more freedom (Dutt 2006, 106). Licensing was no longer applied to a number of industries beginning in 1991—automobiles, appliances, leather and skins—and gradually expanded to cover most economic activity.

The results were nothing short of astonishing. The country’s gross national product increased at an annual rate of 6.5% during the plan’s period, exceeding the ambitious targets set by Singh and Rao (Dutt 2006, 112). Exports expanded by 75% between 1990 and 1995, and imports rose by only half, causing the trade deficit to shrink significantly (Srinivasan 1998, 211), with the result that the country’s hard currency reserves rose to a solid $80 billion in 2002 (World Bank 2003, 19). The poverty rate fell from roughly 45% during the 1980s to 36% during the 1990s, and 29% in the year 2000 (World Bank 2003, 1). Prices of most manufactured goods fell dramatically and personal consumption increased (Dutt 2006, 107). What was perhaps most remarkable about the reforms is that, unlike in Russia or Eastern Europe, they were introduced a bit at a time; the pacing was neither too slow nor too fast and were therefore absorbed more readily by the affected groups (Bhagwati 1998).

Employment expanded—especially in the service sector, which grew from roughly $1 billion in 1991 to nearly $10 billion in 2001. The IT sector alone grew from 7.5% of the national economy to 10.5% during the same period (World Bank 2003, 5). Cell phones were introduced for the first time in India in 1994. By 1996, there were one million of them in the hands of Indian consumers. In general, thanks to their many outstanding universities, command of English, cosmopolitanism, and eagerness to prove themselves, Indians are among the most savvy high-tech entrepreneurs and are more than willing to embrace new technology when it is affordable (Friedman 2005).

This is not to say that India’s reforms have benefited the whole country or everyone in it. Incomes vary widely across regions and social classes. Foreign investment and technology have primarily been attracted to a few big cities, such as Mumbai (formerly Bombay) and the surrounding area, New Delhi, Chennai (formerly Madras), and Bangalore (Dutt 2006, 107). Predominantly rural states have also benefited less as agricultural growth has not kept pace with the technology sectors. Agricultural output rose only by 1.7% between 1997 and 2001, and its share of the national wealth declined from 28% in 1993 to 23% in 2001 (World Bank 2003, 113). The growth the farming sector has seen can be largely attributed to continued government subsidies for fertilizers and pesticides, neither of which can
continue indefinitely. On the contrary, much of India’s arable land—perhaps as much as half—has been seriously degraded as a result of the overuse of chemicals and is at risk of losing its productivity (World Bank 2003, 74). Although poverty rates have fallen as measured by the government, 44% of Indians still live on less than one dollar a day, in part because land holding patterns are still remarkably similar to those in 1950 (World Bank 2003, 83).

A key problem stems from India’s service provision, especially at the local level. Although state spending increased by roughly 10% a year during the last half of the 1990s, this has not translated into more services being provided to Indians on the whole. Any increases in spending on public services have been swallowed up by rising wages rather than expanded or improved coverage. The problem is profound, as noted by a World Bank study in 2003 that reported a lack of primary health care workers around the country. Not that they haven’t been hired or trained. But in most Indian states, absenteeism hovers around 50%, ranging from only 35% in Orissa state to 58% in Bihar (World Bank 2003, 41). In other words, in a typical health clinic with ten nurses slated to be on duty at any given time, patients seeking care will only find five actually present. In part because the government is not focused on achieving particular social outcomes, such problems as high population growth rates continue (see Figure 15.3).

In spite of this, conditions have been improving for many Indian poor as literacy rates have increased, infant mortality declined, and sanitation and access to clean water have improved since the 1980s. But India still lags far behind such countries as China, Brazil, and even Pakistan (World Bank 2003, 132).

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**Figure 15.3** Relative changes in Indian birth and death rates, 1971–2002

Source: Dutt 2006, 100.
Figure 15.4 Inflows of Foreign Direct Investment to India, 1990–2007

At the macroeconomic level, there are also concerns that India has not yet gone far enough. Its tariff rates are still far higher than comparable Asian nations—twice those of China, for example. And private investment is showing signs of slipping, with rates falling from 10% in the 1980s to 7% in the early 2000s (World Bank 2003, 5).

CONCLUSION: INDIA TODAY

India today is a study in contradictions. The author recently visited a village west of Coimbatore—a bustling city with all sorts of modern amenities, including several universities, a large train station, a busy airport, and a bustling shopping district. The village and its roughly 600 residents are, however, a throwback to feudalism, where a landlord controls almost all the surrounding fields, which sharecropper farmers cultivate. The caste system—including untouchability—is alive and well (an untouchable caste woman explains that although she is not permitted to enter the temple, she doesn’t mind standing outside since the gods will pass by her on their way in). The state provides only rudimentary services (water is turned on at a public tap for only a few hours a day). Only about 10% of the village has basic sanitation, and the ditches and roadways serve as the community’s toilets. Yet several of the village’s residents are working on their college degrees (there are several new technical colleges within five miles), and an internet café just a mile down the road is always busy. And Mumbai, with its high-tech firms and “Bollywood” film studios, are just a cheap two-hour flight away. It is very difficult to generalize about a country where such contradictions exist in a single village.

What is perhaps most remarkable is that India since 1991 has entered a phase of remarkable stability and predictability in its economic policies—this in spite of
the fact that power has changed hands a number of times. The BJP, a Hindu nationalist conservative party, came to power in 1998 under A.B. Vajpayee after a period of unstable Janata rule. Although it adopted a more conservative cultural program and fell into the same in-fighting as Janata, the party was able to stay in power until 2004, during which it further reduced the role of the state in the economy. In 2004, under the leadership of Sonia Gandhi, Rajiv’s widow, Congress won again. However, as an Italian-born former Catholic, Sonia decided not to assume the Prime Minister’s post for fear of public reaction to a foreign leader, but instead offered it to Manmohan Singh, the original architect of the 1991 reforms. Needless to say, he remains committed to liberalization.

Perhaps the most intriguing feature of modern India is not the country’s nuclear weapons or endemic poverty, but the phenomenon known as “outsourcing.” Outsourcing involves the transfer by a company of activities formerly done in-house to a contractor that can do it more cheaply and efficiently. Although the outsourcing of manufacturing activities has been going on for decades (no doubt the reader is wearing foreign-made clothing with an American label!), outsourcing services is a relatively new phenomenon (See Figure 15.4). It began in India in 1994 when American Express moved much of its day-to-day account processing to Bangalore (Dutt 2006, 146). Since then, roughly half a million jobs have been relocated from Western countries to India in a search for lower costs—especially wages—and similar if not higher performance (Greene 2006, 12). Call centers, help lines, accounting activities, and even legal consulting have flourished as Indians create and staff companies that enjoy easy access to Western customers thanks to high-speed internet connections, VoIP technology, and compatible computer software programs (Friedman 2005). Some estimate that ultimately as many as one sixth of all banking and insurance jobs will move from the West to India (around two million) (Dutt 2006, 147).

Although this would seem to be a tremendous boon for India, the fact is that the sector is still only able to employ a small fraction of the technology graduates coming out of India’s many universities, and the trend has almost no effect on the rural poor, except to increase the gap between haves and have-nots. But just because an industry’s growth doesn’t benefit everyone is no reason to stifle or disparage it. It simply raises another issue for Indians to consider as they struggle to define what independence and development mean for their country.

QUESTIONS TO CONSIDER

1. What lessons can we learn from the Indian case about the proper role of government in national development?

2. Has the definition of development changed over the course of India’s history? If so, how has this affected development policy?

3. To what extent has the past impinged upon the present as successive Indian governments’ attempts at policy reform?
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**KEY FIGURES**

**INDIA RISING**

Mohandas (Mahatma) Gandhi  Principal activist and organizer for India’s non-violent independence movement.

Jawaharlal Nehru  First Prime Minister of India.

Indira Gandhi  Daughter of Nehru, Prime Minister of India.

Rajiv Gandhi  Son of Indira, Prime Minister of India.

P.V. Narasimha Rao  Prime Minister of India during the 1990s. He introduced the liberal reforms that are still in place.

A.B. Vajpayee  Prime Minister of India as leader of the BJP.

Sonia Gandhi  Widow of Rajiv, leader of the Congress Party.

Manmohan Singh  Architect of India’s economic reforms during the 1990s as Finance Minister. Prime Minister of India beginning in 2004.

**CHRONOLOGY**

**INDIA RISING**

1858  India comes under direct rule of the British crown.

1885  Indian National Congress founded to lobby for new relations with Great Britain.

1920–1922  Mohandas Gandhi launches anti-British civil disobedience campaign.

1942–1943  Congress launches “Quit India” movement.

1947  British rule comes to an end as India and Pakistan gain their independence.

1947–1948  Hundreds of thousands die in widespread communal bloodshed after partition.

1948  War with Pakistan over disputed territory of Kashmir.

1964  Death of Prime Minister Jawaharlal Nehru.

1966  Nehru’s daughter Indira Gandhi becomes prime minister.
1971
Third war with Pakistan over creation of Bangladesh, formerly East Pakistan.

1975
Indira Gandhi declares state of emergency after being found guilty of electoral malpractice.

1975–1977
Nearly 1,000 political opponents imprisoned.

1977
Indira Gandhi’s Congress Party loses general elections.

1980
Indira Gandhi returns to power.

1984
Indira Gandhi is assassinated, after which her son, Rajiv, becomes prime minister.

1989
Falling public support leads to Congress defeat in general election.

1991
Rajiv Gandhi is assassinated by suicide bomber sympathetic to Sri Lanka’s Tamil Tigers.

1991
Economic reform program is begun by Prime Minister P.V. Narasimha Rao and Finance Min-
ister Manmohan Singh.

1996
Congress suffers worst ever electoral defeat at the hands of the BJP.

1998
BJP forms coalition government under Prime Minister Atal Behari Vajpayee.

2004
May  Surprise victory for Congress Party in general elections. Manmohan Singh is sworn in as prime minister.

2006
February  India’s largest-ever rural jobs scheme is launched, aimed at lifting around 60 million families out of poverty.

2007
May  Government announces its strongest economic growth figures for 20 years—9.4% in the year to March.

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CHAPTER 15 Decolonization and Development: India Rising


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