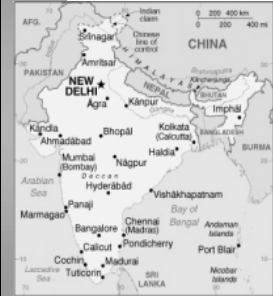


Republic of India



- Population 1.05 billion, 28% urban, avg. density ~ Japan. 1/3 <15 years, 1.7% population growth rate.
- 81% Hindus, 12% Muslims, plus Sikhs, Nestorian Christians, Buddhists, etc.
- Federal Republic, bicameral parliament, new prime minister (Dr. Manmohan Singh, Congress(I) Party) is head of government.
- GDP ~ \$600 billion; agriculture 23%, industry 27%; trade ratio ~ 23%.
- GDP per cap, PPP ~ \$1600; 25% below poverty line, growing middle class (about 33%); GINI = 29.7.
- Life expectancy = 62 m, 63 f.
- Infant mortality 85 per 1000.
- Illiteracy rate = 35% m, 62% f.
- Perceived corruption index 2.8, economic freedom index 3.5.

Background

- Continuous civilization since 2500 BCE (Mohenjodaro, Dravidian culture, early Hindu religion), but no unified state (more like European states, principalities).
- Aryan invasion 1500 BCE. Gradual development of caste system to differentiate conqueror from conquered: five main groups, including *Brahmin* (priest), *Kshatriya* (warrior), *Vayisha* (merchant) [all 3 ~ 20%], *Shudra* (peasant) [40%], and untouchables [20%]; 2400 specific castes.
- Very complex history, including invasions in north by Alexander, Arabs, Turkic peoples, Mongols, Tamurlane, and Moghuls (empire 1526-1862). Portuguese arrived in Goa in 1498, then Dutch, French, British.
- British Raj: East India Company came in 1612 for trade, then came military conquest (1757-1799) aided by "divide to rule." Effort to conquer Afghanistan failed. Sepoymutiny (1857-58) led to direct British rule through Viceroy. British brought legal system, educational system, and civil service system, but also British landlords, taxes, biased trade, and deindustrialization.

The Mahatma



- In *Hind Swaraj* (1909) Mohandas Gandhi argued that Indian self-rule should not just try to recreate "English rule without the Englishman; the tiger's nature but not the tiger."
- He believed that the British system and virtually all of its institutions – political, economic, bureaucratic, legal, military, and educational – were inherently unjust, exploitative and alienating. Industrialization was morally inadequate. He advocated simplicity, tolerance, poverty, and humility.
- Gandhi's approach focused on *Satyagraha* (nonviolence) together with civil disobedience to unjust laws, and both individual and national self-sufficiency to achieve *Swaraj* (self-rule). His approach appealed to British humanity, and over several decades this approach gradually convinced many British that their empire should be dismantled.
- After Gandhi's assassination in 1948 by a Hindu nationalist, his advocacy of national and individual self-reliance led to policies of protectionism (import-substitution). Gandhi also favored traditional, appropriate, and labor-intensive technology.

Indian Independence



- Independence movement led by alliance of Indian National Congress (Jawaharlal Nehru, Mohandas Gandhi, Netaji Bose) and Muslim League (Muhammad Jinnah).
- Boycott of British goods led to martial law, Amritsar massacre in 1919.
- Independence was eventually granted by British in 1947, East and West Pakistan were partitioned.
- Beginning in 1946, rioting erupted between Hindus and Muslims, then war in Kashmir.
- India became a federal republic in 1950.
- Congress Party dominated politics, and Nehru family dominated Congress Party:
 - Nehru prime minister until 1964, Indira Gandhi prime minister 1966-77, 1980-84 (assassinated after attack on Sikh-held site in Amritsar); Rajiv Gandhi 1984-1991.
 - Hindu Nationalist Party (BJP) competitive after 1991, Sonia Gandhi led Congress(I) Party to victory in 2004.

India's Democratic Socialism

- Nehru influenced by British "Fabian socialism," which advocated democratic, non-revolutionary means for state to acquire Ricardian rents.
- His approach favored political democracy and secular nationalism, and he was impressed by Soviet planning. He also favored Gandhi's principles of self-reliance, appropriate technology, nonviolence, and egalitarianism.
- Indian Planning Commission established 5-year plans, but planning was indicative, not directive.
- Private industries were licensed, size of private firms was capped to limit monopoly power, new SOEs created under Nehru, nationalization of firms expanded under Indira Gandhi's reservation system. By 1991, SOEs accounted for 24% of GDP.
- No comparison to USSR, CEE, even China: central government expenditures still only accounted for 14% of GDP.

India's Turnaround

- After Rajiv Gandhi assassinated in 1991, new P.M. Rao faced balance of payments deficit, budget deficit, inflation, foreign debt repayment problem, and financial crisis.
- New policies to get IMF loan:
 - Reduction of budget deficit, inflation.
 - Devaluation of Rupee, dramatic reduction in tariffs and NTBs, reduction of rules on FDI. All this led to expansion of trade. Import competition improved quality of domestic goods, export competition opened opportunities for comparative advantage for English-speaking university graduates to outsource for the U.S.
 - Private firms allowed to compete more with SOEs, but still heavily regulated.
 - Gradual deregulation of banking: competition, interest rates.
 - Continuing problems in SOEs: subsidies expensive, performance weak (e.g., electricity industry).
- India survived Asian Financial Crisis unscathed, both because it already implemented reforms, and because extent of foreign investment was relatively low.
- Real GDP Growth rate in 2003 around 8.5%.

A Comparison of Per-Capita Growth Performance (Maddison's PPP estimates)

Years	India	China	GDPPC Ratio
1-1820	0.0%	0.0%	0.89
1820-1870	0.0%	-0.2%	1.01
1870-1900	0.4%	0.1%	1.10
1900-1950	0.1%	-0.4%	1.41
1950-1970	1.7%	2.9%	1.11
1970-1990	2.1%	4.4%	0.70
1990-2001	3.7%	6.2%	0.55
