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Ph.D. Dissertation

Democracy and Free Trade

- The Politics of Trade Liberalization in India -

Graduate School of Chosun University

Department of Political Science and International Relations

Shekhar Kumar Patel

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민주주의와 자유무역: 인도의 무역 자유화의 정치

August 25th, 2016

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Advisor: Professor Jhee Byong-Kuen

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LIST OF ABBREVIATIONS

ABLTC	Akhil Bharatiya Loktantrik Congress
AC	Arunachal Congress
ADB	The African Development Bank
AGP	Asom Gana Parishad
AIADMK	All India Anna Dravida Munnetra Kazhagam
AIFB	All India Forward Bloc
AIMIM	All India Majlis Ittehadul Muslimeen
ASEAN	Association of South East Asian Nations
AUDF	Assam United Democratic Front
BJD	Biju Janata Dal
BJP	Bharatiya Janata Party
BPF	Bodoland People's Front
BRIICS	Brazil, Russia, India, Indonesia, China and South Africa
BSMC	Bodoland State Movement Committee
BSP	Bahujan Samaj Party
BVA	Bahujan Vikas Aghadi
Cong (T)	Congress (Tiwari)
Cong(S)	Congress (Socialist)
CPI	Communist Party of India

CPI(M)	Communist Party of India (Marxist)
DMK	Dravida Munnetra Kazhagam
FDI	Foreign Direct Investment
FTP	Foreign Trade Policy
GDP	Gross Domestic Product
HLD(R)	Haryana Lok Dal (Rashtriya)
HVC	Himachal Vikas Congress
HVP	Haryana Vikas Party
IFDP	Indian Federal Democratic Party
IMF	International Monetary Fund
IPC	The Index of Import Price Competitiveness
IUML	Indian Union Muslim League
JD	Janata Dal
JD(S)	Janata Dal (Secular)
JD(U)	Janata Dal (United)
JKPDP	Jammu & Kashmir People's Democratic Party
JMM	Jharkhand Mukti Morcha
JP(S)	Janata Party (Secular)
JVM(P)	Jharkhand Vikas Morcha (Prajatantrik)
LJP	LokJanshakti Party
MADMK	MGR Anna Dravida Munnetra Kazhagam

MDMK	Marumalarchi Dravida Munnetra Kazhagam
MGP	Maharashtrawadi Gomantak Party
MOCI	Ministry of Commerce and Industry
MSCP	Manipur State Congress Party
NC (J)	Jammu & Kashmir National Conference
NC	National Conference
NCP	Nationalist Congress Party
NDA	National Democratic Alliance
NPF	Nagaland People's Front
OGL	Open General Licensing
PEI	The Profitability of Exports Index
PMK	Pattali Makkal Katchi
PTA	Preferential Trade Agreements
QR	Quantitative Restrictions
REP	Relative Export Price
RJD	Rashtriya Janata Dal
RJP	Rashtriya Janata Party
RLD	Rashtriya Lok Dal
RPE	The Relative Profitability of Exports
RSP	Revolutionary Socialist Party
SAD	Shiromani Akali Dal

SDF	Sikkim Democratic Front
SEZ	Special Economic Zones
SHS	Shiv Sena
SJP	Samajwadi Janata Party
SMT	Samata Party
SP	Samajwadi Party
SPS	Sanitary and Phytosanitary
TBT	Technical Barriers to Trade
TDP	Telugu Desam Party
TMC	Tamil Maanila Congress
TRC	Tamizhaga Rajiv Congress
TRS	Telangana Rashtra Samithi
UPA	United Progressive Alliance
VCK	Viduthalai Chiruthaigal Katchi
WBTC	West Bengal Trinamul Congress
WTO	World Trade Organization

초록

민주주의와 자유무역

- 인도의 무역 자유화의 정치 -

패텔 시카 쿠마

지도교수: 지병근

정치외교학과

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이 논문은 1947 년 인도 독립 이후 '민주주의 체계가 인도의 자유무역 정책에 어떤 영향을 미쳤는지'를 알아보기 위한 시도이다. 기존의 이론들은 민주주의 체계가 자유무역 정책을 가속화하고, 또한 민주주의 국가는 독재 국가보다 더 자유로운 무역 정책을 채택한다고 주장하고 있다. 하지만 인도의 경우에는 이런 이론들이 적합하지 않아 보인다. 왜냐하면 인도는 민주주의 국가이지만 무역 정책에 있어서는 더딘 발전 속도를 보여주고 있기 때문이다. 그리고 거기에는 다양한 이유들이 존재하는 것으로 파악된다. 따라서 이 논문에서는 민주주의 국가 간의 무역 정책의 차이를 설명하고, 어떤 형식의 민주주의가 자유무역 정책을 촉진하는 가를 분석했다. 또한 인도는 왜 다른 민주주의 국가에 비해 보다 강한 보호 무역주의 체제가 존재하는지를 설명하였다.

이 연구의 주요 가정은 '협의제적 민주주의 (consociational democracy) 체계가 인도의 자유무역정책 개혁 과정을 지연시킨다'는 것이다. 이를 증명하기 위해 다음 두 가지 하위 가설을 설정하였다. 그 첫 번째는 '연방주의 (federalism)가 자유무역정책 과정을 지연시킨다'는 것이고, 그 두 번째는 '연립정부 (coalition government)가 자유무역정책 과정을 지연시킨다' 는 것이다.

뿐만 아니라 이 논문에서는 몇몇 다른 하위 가설들을 통해서 협의제적 민주주의가 자유무역정책 개혁에 미치는 영향을 분석하였다. 이를 위해 다음 세 가지 방법을 취하였다. 첫째, 경제적 위기, 국제사회의 압력, 총리의 정치적 이념, 그리고 정부 유형을 통해서 1947 년 이후의 인도 자유무역정책 개혁을 분석한다. 둘째, 총리의 정치적 이념, 야당의 정치적 압박과 정부 유형을 통해 인도의 자유무역정책 개혁의 전환을 분석한다. 셋째, 정부의 정당의 수, 국제무역에 대한 관세율과 세금을 통해 인도 연합정부와 자유무역정책 개혁의 관계를 분석한다.

그리고 이 연구에서는 인도의 경제정책과 자유무역정책개혁 또한 분석하였다. 인도정부는 1947 년부터 2014 년까지 무역정책 개혁을 여섯 번 시도했으나 이 중 다섯 번은 개혁결정을 번복하였다. 이러한 점에 착안하여 여기에서는 인도의 자유무역 정책개혁을 세 가지 차원으로 분석했다. 그 첫째는, 인도의 자유무역정책 개혁의 원인을 검토하는 것이다. 그리고 두 번째는 각 정책 반응의 실질적인 특성을 분석하는 것이다. 마지막으로는 개혁

정책이 실제로 지속되는지 또는 번복되는지를 검토하는 것이다. 번복되었을 경우는 그 주요 원인이 무엇인지를 조사하였다.

이러한 일련의 작업을 통해서 이 연구에서는 다음과 같은 결과를 얻을 수 있었다. 첫째, 민주주의는 자유무역정책을 촉진시켰지만, 인도의 합의제 민주주의적 특성이 자유무역정책 개혁을 지연시켰다는 점이다. 둘째, 경제적 측면에서 경제적 위기, IMF 와 World Bank 와 같은 국제기구로부터의 압력과 소련 경제의 붕괴가 인도의 무역 자유화의 주요한 동인이었다는 점이다. 하지만 정치적 측면에서는 총리의 사회주의적 이념, 야당의 반대, 연합정부와 연립 파트너 수가 무역 자유화 정책 번복의 주된 원인이었다. 셋째, 연방주의 체계에서 중앙정부와 주정부가 동의해야 개혁이 가능한데, 인도의 분권화된 통제시스템, 중앙정부와 주정부 간의 갈등, 다층적 통치, 다당제 정부, 지역정당의 난립 등이 자유무역정책 개혁을 지연시켰다. 넷째, 연립정부를 이루는 정당의 수가 증가하면서 관세율이 높아지고 무역 자유화의 과정이 느려졌다. 반면 정당의 수가 감소하면 관세율이 떨어지고 무역 자유화의 과정이 빨라졌다.

Abstract

Democracy and Free Trade

The Politics of Trade Policy in India

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This study attempts to find out how democracy affects free trade policy in India since 1947. Most conventional theories suggest that democracy accelerates free trade policy and that democratic countries have more free trade policy (liberal trade policies) than autocracies. However, it does not seem to fit the case of India. There are various factors which are responsible for slow trade policy in India. This study explains the variation in trade policy among democratic countries and finds out which type of democracy promotes free trade policy. In addition, it attempts to explain why India has more protective trade policy than other democratic countries.

The main hypothesis of this research is that a consociational democracy delays the process of free trade policy reform in India. The first hypothesis of this research is that federalism delays the process of free trade policy in India. And the second hypothesis of

this research is that coalition government delays the process of free trade policy in India. There are also some other sub-hypotheses, through these hypotheses this study will analyze the relationship between consociational democracy and free trade policy reform.

This study estimates the relationship between consociational democracy and free trade policy reform in India. Federalism, a coalition government, and free trade policy reform will be used to analyze the effect of consociational democracy on free trade policy reform in India. First, this research uses the economic crisis, international pressure, the political ideology of Prime Ministers, and the types of government to analyze a free trade policy reform in India since 1947. Second, this research uses the political ideology of Prime Minister, political pressure from opposition and type of government to analyze the reversals of free trade policy reform in India. Third, this research uses the number of political parties in government, tariff rates and taxes on international trade to analyze the relationship between the coalition government and free trade policy reform in India.

This research also analyzes the economic policy and free trade policy reform in India. From 1947 to 2014 Indian government tried to reform Indian trade policy six times, but out of six, five times Indian government reversed their reform policy decision. This study will analyze India’s free trade policy reform through three dimensions.

First, it analyzes the causes of free trade policy reform in India. Second, it analyzes the substantive features of each policy response. Third, it analyzes if the reform policies are in fact sustained, or whether they are reversed. If they reversed, then what are the main causes for reversal of free trade policy reform in India.

The findings of this study are as follows: First, democracy promotes free trade policy. However, a consociational type of democracy delays the process of free trade policy reform through federalism and coalition government in India.

Second, economic factors like an economic crisis, international pressure from the IMF and the World Bank for liberalization and the collapse of the Soviet economy are the main reasons for trade liberalization in India. However, political factors like the socialist ideology of prime ministers, political opposition, a coalition government and coalition partners are the main reasons behind the reversal of liberalization policy in India.

Third, the federalism has two or more orders of governments which have to agree on reform. However, because of the decentralized system in India, a conflict between center-state, the multi-level governance, the multiparty government, and the rise of regional parties delays the process of free trade policy reform in India.

Fourth, the coalition forms of government in which a certain number of coalition partners coexist have to reach an agreement for a policy change. As the number of coalition partners in government increases, the policy change process becomes difficult. When the number of parties increases in the coalition government, tariff rate also increases and the process of trade liberalization becomes slow. And when the number of parties decreases in the coalition government, tariff rate also decreases and the process of trade liberalization increases.

Chapter 1

Introduction

1. Research Question

The ongoing debate on democracy has often centered around one of its purported benefits, that it promotes free trade policy. There are many researches explain that democratic countries have more liberal trade policies than do autocratic countries (Kano 2008, 942; Milner and Mukherjee 2011, 35-36; Milner and Kubota 2005; Frye and Mansfield 2004; and Tavares 2008, 163-64). For example, Clinton's Administration claimed that "The basic characteristics of democracies which create free markets and it offer economic opportunity and also create more reliable trading partners" (The White House 1996).

India is one of the largest democratic countries (second largest in an area and second most populated country). Past few years Indian trade has been increased, but compare to other democratic countries, India has still very protective trade policy. For example, India is placed 126th overall for World Bank's *trading across borders* and 142nd overall in the World Bank's *Easy Doing business index* even much worse than Malaysia, Sri-Lanka and even autocratic countries like China (World Bank 2014).

This study attempts to find out what explains the variation in trade policy among democratic countries and whether any type of democracy promotes free trade. In addition, it attempts to explain why India has more protective trade policy than other democratic countries. And it also tries to explain how consociational (power sharing) type of democracy affects free trade policy with the case study of India. This study will focus on why India has more trade protection than other countries. In other words, why most democratic countries have more free trade policy (liberal on trade protection) than India.

This study argues that the form of democracy is important for the adoption of free trade policy. The consociational (power sharing) democracy established in India could have a different impact on free trade policy because Indian democracy could be called a consociational (the power sharing between national and state governments) form of democracy. Federalism and coalition government could hinder the free trade policy in India. Or, consociational democracy (federalism and coalition Government), makes less free (liberal) trade policy (more protective trade policy); or consociational democracy could delay the process of trade liberalization (more trade protection) in India.

As Lijphart (1999) argues, consociational democracy has four conditions: (1) a grand coalition government that includes representatives of all major linguistic and religious groups, (2) cultural autonomy for these groups, (3) proportionality in political representation and civil service appointments, and (4) a minority veto with regard to vital minority rights and autonomy.

This study argues that consociational (power-sharing) democracy could hinder the free trade policy through federalism and coalition government. The federalism has two or more orders of governments (the central government and states governments) which combine the elements of a power-sharing system. The power-sharing system between a central government and state government could make it difficult to change protective trade policy to the free trade policy. The coalition forms of government in which a certain number of coalition partners coexist have to reach an agreement for a policy change. As the number of coalition partners in government increases, the policy change process from protective to free trade could be difficult. As a corralling, the consociational (power-sharing) form of democracy could hinder the change towards the free trade policy than other forms of democracy.

2. Research Design and Methodology

This chapter discusses the research designs of this study. This discussion includes the conventional theory of democracy and free trade policy. It also discusses various questions related to democracy and free trade policy. This chapter explains methodology utilized in this study. Why did this study choose India as a case study? Why is a certain time period (1947~2014) taken to explain the India case study? Which variables are included in the model of democracy and free trade policy? How is Indian democracy and free trade policy different from other democratic countries? How could we measure dependent and independent variables? How does consociational democracy have a different effect on free trade policy than other democracies? Finally, it explains variables, estimation methods, and hypotheses employed in this study.

1) Aims and Case Selection

This study attempts to analyze the connection between consociational democracy and free trade policy as a case study of India. There are several reasons which make this study to use Indian case. First, India is one of the largest democracies but still India faced difficulties on the free trade liberalization policy. The free trade policy of recent days becomes the activity of strategic importance in the development process mainly of developing economies, including India.

Despite being the country of one of the largest democracy, India has very a protective trade policy than other democratic countries. Because of this reason Indian case becomes more interesting in comparison with other democratic countries.

2) Time Period (1947 ~ 2014)

India became an independent country on the 15th of August 1947 from British colonial rule. The new constitution of 1950th made India a secular and democratic state. India became a republic and democratic nations after the establishment of a constitution in 1950th. Before 1947 India was not an independent and democratic country because of British colonial and it was divided into princely states. This study focuses on the period from 1947 to 2014 because, for the last 60 years, India went through various political and economic changes. For the last 60 years, India has been emerging as a central player in the Asia and World in terms of political-economic regional power.

3) Data Analysis

Data has been gathered from various reliable sources which help to analyze the topic of this study. Data analysis helps in structuring the findings from different sources of data collection and it will filter both qualitative and quantitative information to analyze this research. Data includes following variables: measurement and data sources.

Table 1-1 Variables, Measurement, and Data Sources

Variable	**Measurement**	**Data Sources**
Main Variables		
Democracy	Level of democracy	Polity IV, Freedom House
Free Trade Policy	Tariff rate (%)	WDI 2015
Federalism		Various
Coalition Government	Number of parties in government	Various
Liberalization Policy		Various
Economic Variables		
Economic Crisis	BOP and foreign exchange crisis	Various
International Pressure	IMF/WB pressure	Various
Political Ideology of P.M.	-	Various
Political Pressure from Opposition	-	Various
Type of Government	S.P.G/C.G	Various
Tariff Rate	Tariff rate (%)	WDI 2015
Taxes on International Trade	-	WDI 2015
Exchange Rate	-	WDI 2015
Export	-	WDI 2015
Import	-	WDI 2015

Note. BOP: Balance of payment, GDP: Gross domestic product, IMF: International monetary fund, WB: World Bank, P.M: Prime Minister of India, Opposition: Main opposition party on national levels, S.P.G: Single party government, C.G.: Coalition government, WDI: World development indicators.

4) Variables

This research uses the consociational democracy as an independent variable. In the Indian case, consociational democracy has a strong impact on the free trade policy. Consociational democracy is a form of democracy which seeks to regulate the sharing of power in a state that comprises diverse ethnic, religious, political, national or linguistic groups. Consociational democracy stresses power sharing on the basis of a broad coalition cabinet, a proportional electoral system, a multi-party system, federal and decentralized government, strong bicameralism and other institutions.

This research uses the liberalization policy (free trade policy) as a dependent variable. The liberalization policy (free trade policy) is a policy followed by some international markets in which countries' governments do not restrict imports from or exports to other countries. Liberalization policy depends on the political system of the country. The liberalization policy (free trade policy) depends on the democratic or authoritarian kind of government.

This research uses many other variables like federalism, coalition government, liberalization policy, economic crisis, international pressure for free trade policy, political ideology of Prime Minister or government, political pressure against or support of free trade policy reform from main opposition, type of government (single party government or coalition government), tariff rate, taxes on international trade, export and import.

5) Methodology

The relationship between consociational democracy and free trade policy reform tested analysis ways. This study uses the relationship between federalism, coalition government, free trade policy reform in India to analyze the effects of consociational democracy on free trade policy reform in India.

First, this research uses the economic crisis (balance of payment and foreign exchange crisis), international pressure, the political ideology of Prime Minister and type of government (single party government or coalition government) to analyze a free trade policy reform in India since 1947.

Second, this research uses the political ideology of Prime Minister, political pressure from opposition and type of government (single party government or coalition government) to analyze a reversal of free trade policy reform in India.

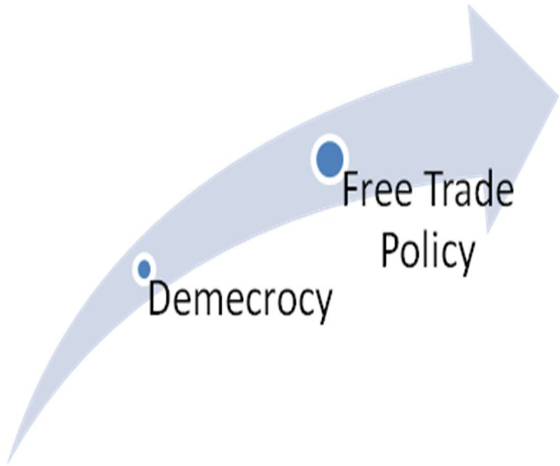
Third, this research uses the center-state relations in the federal system, the multi-level governance and multiparty government and the rise of regional parties to analyze the relationships between federalism and free trade policy reform in India.

Fourth, this study uses the number of political parties in government, tariff rate, trade percentage of GDP and taxes on international trade to analyze the relationship between the coalition government and free trade policy reform in India.

3. Hypotheses

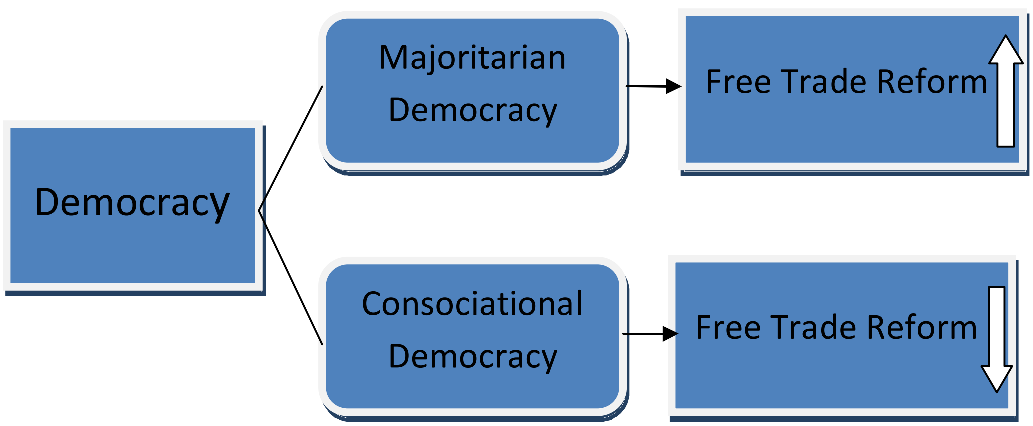
The central hypotheses of this research were made while analyzing the nexus between democracy and free trade policy. The conventional theory shows that democracy promotes free trade policy (most scholars like Kono (2008, 942-43); Milner and Mukherjee (2009, 164-65); Milner and Kubota (2005, 107); Frye and Mansfield (2004); and Tavares (2008, 63) argue that democracy promotes free trade policy (Figure 1-1)). Democracy promotes free trade policy through electoral pressure, comfortable relationship, and political skill (more will explain in chapter 2). However, the conventional theory failed to define why some democratic countries have more liberal free trade policies than other democratic countries (Appendix 1).

Figure 1-1 Democracy Promote Free Trade Reform



This study examines the type of democracy (i.e. consociational democracy) and the type of government (federal government and coalition government), which is important for free trade policy. The central hypotheses of this research are as follows:

Figure 1-2 Democracy, Consociational Democracy, and Free Trade Reform

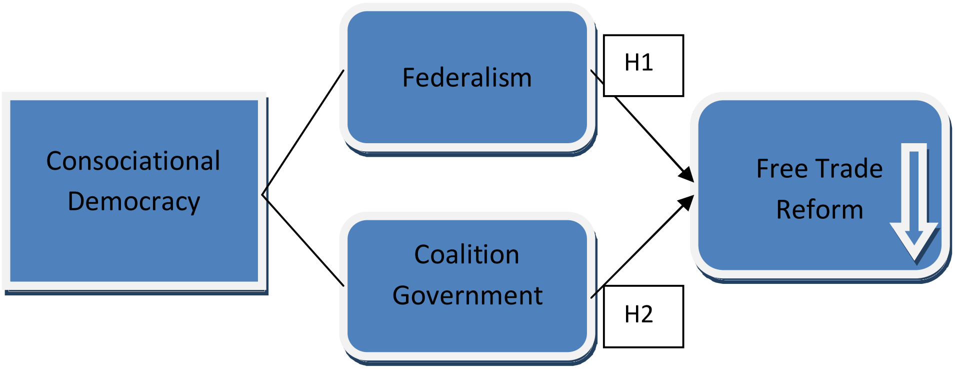


Hypotheses

Consociational democracy delays the process of the free trade policy reform in the Indian case.

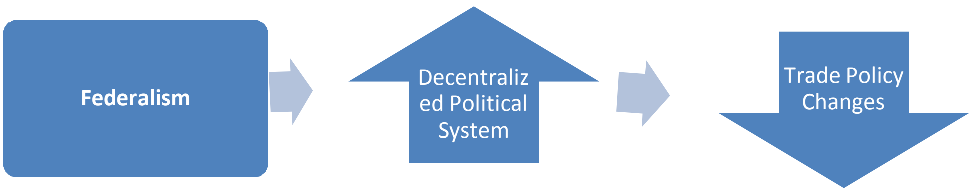
The Indian political system is one of the most complicated systems in the world. This complexity is visible in the consociation democracy in India. India is one of the biggest democracies but faces slow free trade policy because of its complex political system, mainly because of the consociational democracy. In a consociational democracy, federalism and coalition government could hinder the free trade policy reform in India. In other words, consociational democracy (federalism and coalition government) makes less free (liberal) trade policy (more protective trade policy). Or consociational democracy could delay the process of trade liberalization (more trade protection) in India.

Figure 1-3 Consociational Democracy, Federalism, Coalition Government, and Free Trade Policy



Hypothesis 1: Federalism *delays the process* of the free trade policy in the Indian case.

Figure 1-4 Federalism, Free Trade Policy, and Protective Trade Policy in India



As Figure 1-4 shows, the decentralized political system is very important for free trade policy reform in India. This hypothesis argues that in federal democracy when the decentralized political system becomes stronger free trade policy reform will be difficult to implement and government could delay or make slower the process of free trade policy reform. In another word, when decentralized political system becomes stronger in the federal system the chance for protective trade policy will be increased.

In India its federal form of government with the decentralized system could be the hurdle for the free trade policy and Indian federalism could be the main reason behind India's protective trade policy.

H1.1 Federalism promoted more protective trade policy in India.

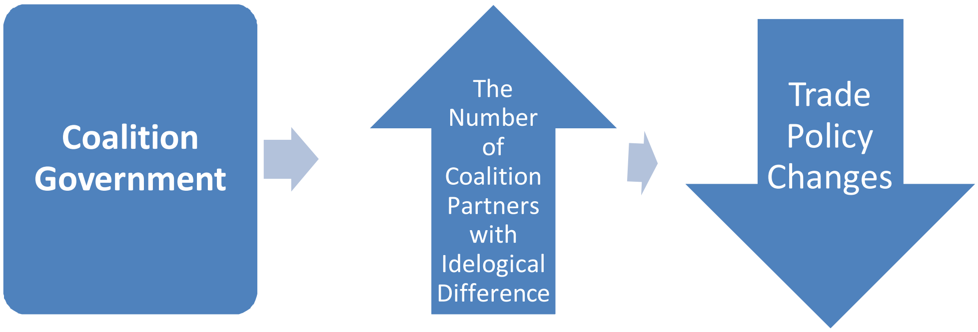
Federalism is a form of government in which the sovereign authority of political power is divided into the various units. This form of government is also called a federation or a federal state in common language. In federalism, regional decision-makers are responding to their own electoral incentives. Because of these electoral incentives they often drop the austerity and political uncertainty which is linked with major economic and trade initiatives. In the last three decades, the conflicts between the central government and regional government complicated the trade reforms that have been at the very heart of the political economies of the developing nations. Although in some cases national leaders could have a strong interest in reforming trade policy, but the regional government often have political incentives that run in just the opposite direction and they want more protective trade policy. As Wibbels (2005, 2-5) summarizes, the central governments resistant to make free trade policy and market-friendly initiatives have disabled the entrepreneurial regional government.

However, Indian federal system is typically devolving significant fiscal and functional responsibilities to regional leaders. Because of this many policy changes took by central government (government at center-Delhi) that fall under the trade reform umbrella suffered from collective action problems (Wibbels 2005, 2-3). Thus in many of the developing countries in the world, including India economic and trade liberalization (trade reform) are dependent on regional and state government as well as national free trade policies. Trade reform becomes subject to complex intergovernmental bargaining between regional and central governments. This complex bargaining tendency forced the Indian government to take a step for the protective trade policy.

Through federalism hypothesis, this study will show that the decentralized political system may hinder free trade policy reform in India. The center-state relations, multi-level governance and multiparty government, central government and regional multiparty system make delay the process of free trade policy reform in India.

Hypothesis 2: *Coalition government delays the process of free trade policy in India*

Figure 1-5 Coalition Government and Trade Policy Change in India



As Figure 1-5 shows, the number of coalition partners with large ideological differences amongst them is very important for the trade policy change in India. This study argues, in the coalition government, when the number of coalition partners increases, then ideological differences amongst them will also increase, that will make difficult for the government to achieve trade policy change (from protective trade policy to free trade policy). In other words, the numbers of coalition partners will delays the trade policy reform in India.

H2.1: *Coalition governments with a high number of coalition partners delay the trade policy reform.*

H2.2: Coalition government with a high number of coalition partners has more difficulty to change trade policy (from protective trade policy to free trade policy).

H2.3: Coalition government with high numbers of coalition partners has high tariff rate.

This study proposes the hypotheses that the more parties in a coalition government delay in trade policy change. This study will show that a large number of political parties in a coalition government slow trade policy change in India.

India is governed by the highest coalition partner, who makes it difficult to pass any reform bill in the parliament. These regional parties have their own local agenda, which hamper trade policy. Indian regional parties are formed on the local agenda like religion, caste, language and some local issues. Most of regional the parties have no clear foreign trade policy, which results in policy paralysis.

4. Structure of this Research

This study is based on various studies on the consociational democracy and free trade policy. Most prior studies argue that democracy promotes free trade but they fail to explain why some democratic countries like India have still more protective trade policy than other democratic countries. This study tries to analyze how consociational democracy affects countries free trade policy with the single case study of India.

Chapter 2 reviews the literature on the link between democracy and free trade policy. This chapter is divided into two parts: first part examines the link between democracy and free trade. A prior study on the nexus between democracy and free trade policy shows that democracy promotes free trade policy. However, they fail to explain why some democratic countries have a more liberal trade than other democracies. The second part of this chapter explains the link between consociational democracy and the free trade policy.

Chapter 3 analyses the trade policies in India: Pre-reform period (1947~1990). This chapter is divided into two parts: the first part of this chapter examines the trade liberalization policy in India between 1947~1984. This part focuses on what enforced Indian governments to liberalize policy; how Indian government perceived liberalization policy and why Indian governments reversed these liberalization policies in that period. The period from 1947 to 1984 was an era of the initiation of controlled trade policy and protectionism based on a development strategy. The second part of this chapter examines the trade liberalization policy in India between 1985~1990. Protection from foreign competition has been the main objective of the Indian trade policy. This chapter shows that political ideology preference of Prime Minister, economic crisis, and international pressure from the IMF and the World Bank play a curatorial role for trade liberalization policy (trade reform policies) in India. The period from 1985 to 1990 was an era of trade policy moving toward open market trade reform policy.

Chapter 4 examines trade policies of the post-reform period (since 1991) in India. This chapter is divided into two parts. The first part of this chapter examines the initiation of liberal trade policy in India between 1991~2011. This part examines why the substantial reforms occurred in 1991 and what are the main political-economic reasons behind 1991 trade liberalization policies. This part argues that the balance of payments crisis, international pressure from the IMF and the World Bank, the collapse of the Soviet Union and single party in government are the main factors which might force the Indian government to liberalize its trade policy in 1991.

The second part of this chapter examines the trade policies moving toward more liberal trade reform policy (2012-2014) in India. It examines the political-economic situation since 2012. This part also examines how Indian government in 2012 perceived the liberalization policy and why Indian government reversed these liberalization policies in 2013. This part examines that policy reforms provided a free and suitable environment for trade. Trade policy includes various measures which helped to achieve the high export and import growth rates; India's share of world trade continues to be small, with only around 1.3% of global merchandise exports in 2009. India is placed 122nd overall in the World Bank's *Doing Business* index and 90th overall for "trading across borders" much worse than China. India's tariff rate is still very high, compare to other developing countries. This part shows that the economic crisis, international pressure (IMF/WB) and single party government are the main causes of trade liberalization policy in India on 2012. However, country's political opposition of government and coalition partners of government are the main causes for reversal of liberalization policy in India.

Chapter 5 examines the federalism and protective trade policy in India. This chapter discusses how federalism has had a distinguished impact on free trade policy in India. First parts of this chapter summarize how federalism hindered free trade policy in India. The second part of this chapter explains the linkage between federalism and free trade policy. It shows that federal system may promote or hinder free trade policies through a decentralized system. This study shows that the conflict between center-state, the multi-level governance, the multiparty government and the rise of regional parties are the main factors on the decentralized system to delay the process of free trade policy reform in India.

Chapter 6 examines how the coalition government affected trade policy change in India. This chapter gives the brief introduction of the relationship between coalition partners and tariff rate or the process of liberalization in India. This chapter examines how these coalition partners (veto players) has affected the outcomes of free trade policy and how these coalition partners influenced or affected pro-liberal trade policy change in India. This chapter argues that the political party's ideology and the number of coalition partners could hamper the process of trade policy change in India. This study shows that the political parties' ideology and policy preference are two different aspects in India. Indian political parties' policy preferences on trade are not fixed on their ideological orientations like western democracies. And the number of coalition partners in government hampered the process of trade policy change in India.

5. Contributions of this Study

This study contribution through several ways, first, there almost no literature available which correlates Indian democracy and free trade policy. Most of the early literature define the Indian trade policy and Indian democratic system as a separate entity and fail to link two elements that affect each other. This study tries to fulfill this gap and find out how democracy reacts on free trade policy in India.

Second, this study tries to analyze India’s liberalization policy through three dimensions. First, it analyzes the causes of free trade policy reform in India. Second, it analyzes the substantive features of each policy response. And third, it analyzes if the reform policies are in fact sustained, or whether they are reversed. If they reversed, then what are the main causes for reversal of free trade policy reform in India?

Third, earlier studies analyzed that Indian government liberalization policies and their reversal policy through factors, which leaves it unclear, how political and economic factors affect government liberalization and reversal of liberalization policies in India. This study analyzes each liberalization policies with political economy factor and find out why Indian governments try to liberalize Indian Trade policy, and why government reverses their liberalization of Indian Trade policies. This paper contributes the political economic factors behind liberalization and reversal of liberalization policies.

Lastly, prior studies analyze the 1991 liberalization policy through economic factors, which leave it unclear, which political economic factors have an impact on 1991 liberalization policy. This study tries to fulfill this gap and find out why did the substantial reforms occur in 1991 and what are the main political-economic reasons behind 1991 trade liberalization policies and what is the political situation from 1991 to till now.

CHAPTER 2

Literature Review

1. Democracy and Free Trade policy

Over the past few decades, the literature on democracy and free trade policy has become an important topic in the field of political economy. There is a vast amount of literature on trade policies in democracies; however, they failed to explain why trade barriers vary across democratic countries and why some democratic countries have more liberal free trade policy than others.

To examine the relationship between democracy and trade, it is necessary to analyze how democratic institutions affect international trade policy. The effects of domestic political institutions on trade policy have long been a source of controversy among social scientists.

Scholars have debated on the issue and some argue unequivocally that democracy promotes free trade policy (Rogowski 1987, 203-4; Mansfield and Busch 1995, 724; Mansfield et al. 2000, 305-6; Bliss and Russett 1998, 1127; and Milner and Kubota 2005, 107-8) while others claiming that democracy could have a negative effect on free trade policy (Kono 2006, 369-30 and Tavares 2008, 163-65).

An amount of empirical studies shows that the democracy promotes free trade through several ways.

Democracy could promote free trade through electoral pressure. In democratic countries constituents, have the power to monitor and punish government who mismanage the economy (bad economic policy) (Lake 1992, 24-26). As Milner (1999, 113-14) argues the greater ability of society to monitor and penalize leaders should produce lower trade barriers in democracies than those in other regime. In democracy, freedom of the press and the free flow of information reading government activities enhance the transparency of free trade policies. Although, Frye and Mansfield (2003, 656-57) mentions, if public officials could affect the protectionist policies which result in to degrade of country's macroeconomic performance. There is considerable evidence that economic performance influences voters' electoral decisions, thereby limiting the extent to which public officials in democracies could both mismanage the economy for their personal gain and retain office (Lake 1992, 24-25).

In other words, in democratic countries, people have electoral power to select their government by selecting their representatives, who could make the right decision regarding their economic as well as political decisions. If the government fails to fulfill their promise, people have the right to change that government at the next elections. And the electoral pressure of the people makes leaders decrease trade barrier (towards free trade policy) in democratic countries.

Democracy could promote free trade through comfortable relationship. Democratic countries feel more comfortable doing trade with democratic countries than autocratic countries. For example, scholars like Mansfield, Milner, and Rosendorff (2000, 320-21) investigate whether democracy affects their international trade relations and they address this issue by examining the consequence of regime's type on trade policy during the period from 1960 to 1990. They found that democratic countries have lower trade barriers than authoritarian countries. And democracy lowers its trade barriers when it seeks agreements with another democracy. Scholars like Mansfield, Milner, and Rosendorff (2000, 305-06) and Dia (2002, 164-65) argue that democratic countries have much lower trade barriers or much stronger free trade policies than authoritarian countries.

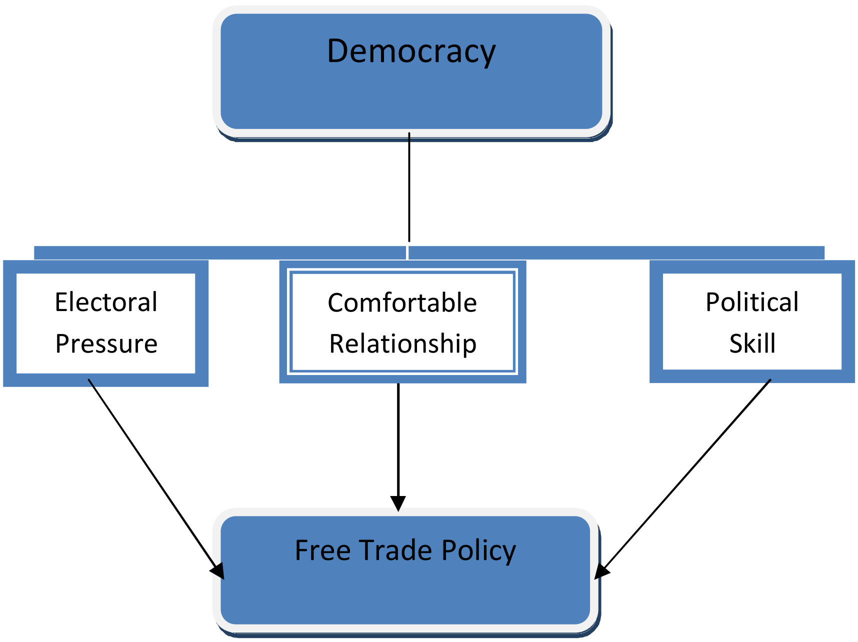
Democracy could promote free trade through political skill. Some scholars argue that the government uses lowering trade barriers as a tool for gaining political support. Milner and Kubota (2005, 130-32) suggest that “in the case of a democratic political system, governments use trade barriers as a strategy for building political support.” Some other studies also show that a democratic country is more likely to have a free trade than nondemocratic countries (Milner and Kubota 2005, 130-33). As Milner and Kubota (2001) shows:

> *In democratization majority rule with universal suffrage…..the democratization of the political system may open up new window to support free trade….and reduce the ability of government to use trade barriers as a tool to gain political support…..Political leaders compensate more voting consumers for protection and however may be no longer able to affords protection…..Hence an increase in the size of the electorate and thus winning coalition may help to change political leaders' which leads to optimal policy in the direction of free trade, ceteris paribus (Milner and Kubota (2001, 130-33).*

However, the view that democracy promotes the adoption of the trade reform policy has been met with considerable skepticism by some scholars. They argue that the institutional factors stimulating commercial openness in democracies also render government officials susceptible to demand from various groups, including those that gain benefits from protectionist policies. Compare to the governments of democratic countries non-democratic countries governments are less responsible for such demands, and therefore face fewer obstacles to reforming their trade policy. As Haggard and Webb (1993, 144-47) suggest that democratic rulers tend to have shorter time horizons than their autocratic counterparts since they must compete in regular and fair elections. According to them, the benefits from open trade policy (trade policy liberalization) often take some time to materialize and the costs tend to be felt much quicker, democrats who liberalize commerce run a greater risk of losing their positions than autocratic leaders. Consequently, autocratic regimes could conduct economic reforms more likely than democracies, an argument frequently advanced with reference to East Asia and Latin America (Frye and Mansfield 2003, 638-39; Haggard 1990, 262; O'Donnell 1973; and Skidmore 1977). Many empirical studies on the nexus between democracy and free trade policies also provide contradicting evidence.

As noted earlier, most empirical studies on the relationship between democracy and free trade show that democratic countries are more likely to have free trade policies, some scholars like Milner and Kubota (2005, 138) argues, when the level of democracy increase, trade barriers will decrease ("*democratization, means an* *increase in the selectorate's size, political leaders changes its calculation about optimal level of trade barriers; it adopt the trade policies which promotes the welfare of consumers/voters at large and it implies trade liberalization*"), while Lake (1992, 32) argues, that democratic political institutions are associated with liberal trade policy.

Figure 2-1 Literature Review on Democracy and Free Trade Policy



However, scholars fail to explain why some democratic countries have more free trade policy (more liberal trade policy) than other democratic countries like India. A question arises here: Is the type of democracy (majoritarian democracy or consociational democracy) important for free trade policy? This study finds that the type of democracy is important for free trade policy. In a democracy the majoritarian type of democracy could promote free trade policy; however, consociational type of democracy could hinder the free trade policy.

2. Consociational Democracy and Free Trade Policy

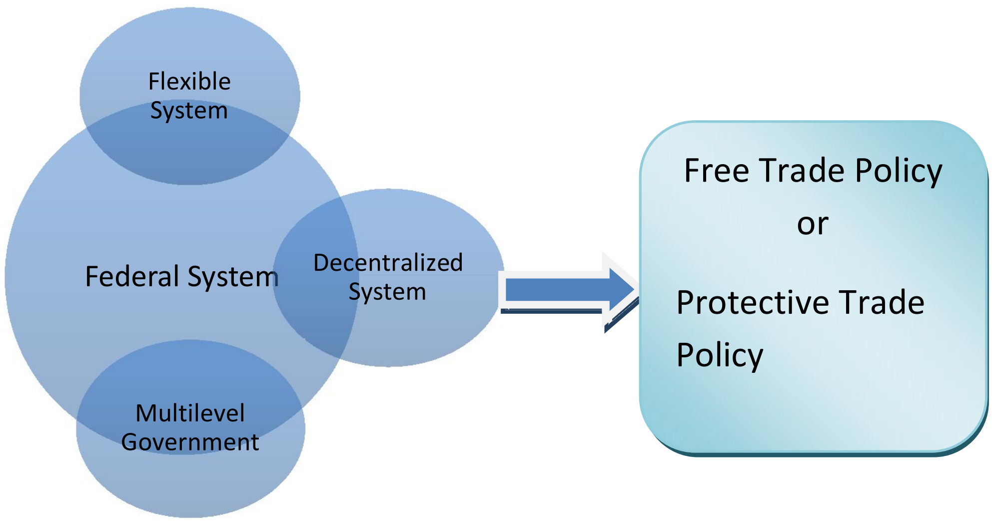
A consociational democracy is a form of democracy, which seeks to regulate the sharing of power in a state. These diverse societies like distinct ethnic, religious, political, national or linguistic groups are associated with consociational democracy. Consociational democracy helps these diverse groups (societies) by allocating collective rights. According to Lijphart (1984; 1999, 31-33), consociational democracy stresses power sharing on the basis of a broad coalition cabinet and a multi-party system. Consociational democracy also shares power with the federal and decentralized government.

This part will find the link between consociational democracy and free trade policy. To analyze the relationship between consociational democracy and free trade policy, it is necessary to analyze the relationship between consociational democracy to free trade policy through federalism and coalition government.

1) Federalism and Free Trade Policy

Does federal system facilitate free trade policies? Earlier literature regarding the nexus between federalism and free trade is divided into two sides. On the one side, scholars like Daumal (2008, 675-76), Paquin (2009, 173-75) and Ruppel et al. (1990, 1009) argue federalist countries are more likely to have a free trade policy. However, on the other side, scholars like Baylis and Furtan (2003, 145-47), Jenkins (2003, 600) and Wheare (1967, 278-282) claims that the negative consequences of federalism on free trade policy. It is necessary to analyze the distinguished features of federal systems such as the flexible system, multilevel governments, and decentralized system.

Figure 2-2 Literature Review on Federal system and Free Trade Policy



Federalism has many factors that could have a big impact on free trade policy making process. In order to make a political economy policy, central government and state government have to participate in the policy-making process. The political participation of the center states in policy making process is responsible for domestic market flexibility, which increases free trade policy. As Daumal (2008, 675-76) argues, in federalism, center-state participation leads to domestic market flexibility and leads to greater domestic market openness and free trade policy.

However, federalism has many factors that could take an important role on free trade policy making process. For political-economy decision, central government and state government have to participate and have to agree on an economy decision. The flexibility of government in federalism arouses some dispute between central government/ national level government and state government/ regional government in making various kinds of policy issues and it is not easy to cooperate with each other when lobbying the federal government for free trade policy. For example, regional government or state government has always some issues with central government as well as with other states regarding taxes, trade restrictions and norms, rules regarding trade, licenses and charge on domestic trade[1] and intergovernmental. Those disputes make it more difficult for central government to have liberal/ free trade policy, so government tries to adopt protective trade policy.

Federalism has multilevel government (for example center, states, municipality, district levels and village levels), which force to make more liberal free trade policy. Some scholars like Daumal (2008, 676) gave two possible mechanisms through which federalism facilitates free trade policy processes in multilevel government, first, domestic market decentralization and the free trade strategy pursued by certain separatist regions in federal countries. She argues that the power of constituent units is a cause for domestic market

[1] If ruling political party is same political party on state and center then, state government does cooperate with central government when lobbying the federal government for free trade policy, but if ruling party is different on state and different on center then the does not cooperate with each other when lobbying the federal government for free trade policy issued.

decentralization, and separatist regions of federal countries promote free trade policy. Second, she argues that since federal countries are less integrated internally than unitary countries, they may be differently and better integrated into the world economy. Daumal stated that *"Trade with foreign countries could thus become a substitute to inter-regional trade when interstate trade costs are high"* Daumal (2008, 280-81).

In federalism, sub-state actors/ regional government have become more aware of their political power and their sovereignty. Local and regional governments also know their ability to formulate and implement a policy which is limited, and they could choose themselves free trade policy/ trade liberalization policy (Paquin 2009, 182-84).

Federalist nations have decentralized systems, which give multiple points to people to participate in trade policymaking process. It increases the opportunities for public participation and increasing the accountability. It has also the responsiveness of elected officials to local citizens, and therefore they make more liberal free trade policy. As some scholars argue that transfer of central decision making to proper democratically elected local and as well as regional bodies gives citizens multiple points of access to the trade policy. Therefore enhancing opportunities for public participation increase the accountability of the elected officials to local citizens. And hence it provides incentives for more responsive democratic government. The capacity of this process to increase the public engagement in community decision making makes more people friendly towards trade policy. In other words, federalism promotes liberal trade policy (Santos 1998, 505-07; Norris 2008; and Acharya et al. 2004, 40).

However, one generally believes that a country has a single and unified market where goods, people, and capital move freely from one region to another. However, in federalist countries, sub-national government/ regional governments have extensive taxing or regulatory authority regarding trade. They have the power to impose restrictions on the movement of goods, services, and workers within the federation (within the country). Within the country, state or region government could impose inter-regional trade barriers like quantitative restrictions, norms, taxes, licenses and charge on domestic trade. The inter-regional trade barriers give difficulty to make more liberal free trade policy, so it leads policymakers to follow old trade policy which is protective trade policy. A decentralized system could hamper the free trade policy.

Scholars argue that in terms of administrative efficiency, compared with a centralized system, federalism may encourage overly complicated and wasteful forms of government. A federal structure slows to respond to major challenges or any kind of policy changes in free trade policy. The process of free trade policy is slowed down because of the participation of a range of parties having veto power (Wibbels 2005, 3-7). Some studies suggest that federalism may generate increased costs, worse coordination, poorer service efficiency, high inequality among administrative areas, and instability in macroeconomic may lead the government to follow protective trade policy (Prudhomme 1995, 210-12). By contrast, a centralized system is thought to enhance integration and more liberal/free trade policy than the federal system (Norris 2008, 3-5). In this view, flexible system, multilevel government, the decentralized system could hinder the free trade policy.

In the parliamentary system, every Member of Parliament (MP) is technically relevant as they have a vote on trade policy issues (Norris 2008, 4-6). However, multi-parties and federal countries like India, political parties in government, and regional government are relevant as they have a vote on the trade issue. Technically, every MP has a vote on trade policy issue but in reality, MPs have to follow their political parties order on the trade issue, so political parties in central government, regional government, and MP have veto powers on trade policy issue.

2) Coalition Government and Free Trade Policy

Empirically, there are two kinds of studies available for a coalition government and economic growth. But there are not many studies available on the nexus between coalition government and free trade policy. Most of the scholars argue that coalition government may hinder the economic growth. However, the coalition government could delay the process of free trade policy through different interests and different constituencies, instability in the coalition government, blame-game politics, and multiple actors or multiple veto players.

Empirically, there are two kinds of studies available for a coalition government and economic growth. But there are not many studies available on the nexus between coalition government and free trade policy. Most of scholars argue that coalition government may hinder the economic growth (Roubini and Sachs 1989; Moore and Mukherjee 2006; and Grilli et al. 1991, 348-49). However, the coalition government could delay the process of free trade policy through different interests and different constituencies, instability in the coalition government, blame-game politics, and multiple actors or multiple veto players.

The coalition government could delays the process of free trade policy reform through different interests and different constituency. In a coalition government, coalition partners may have different interests, and then coalition government wants to adopt or change trade policy. Therefore, it is necessary for coalition partners to reach a consensus. In addition, different interests make it difficult to agree on a common point, so it is difficult for the government to adopt or change trade policy (Roubini and Sachs 1989, 909; Moore and Mukherjee 2006, 111-12; and Grilli et al. 1991).

The coalition government could delays the process of free trade policy reform through instability in government. A coalition government is not as stable as a single party government, which forces government not to change early protective trade policy or to adopt free trade policy (Laver and Schofiedl 1990 and Dellis 2007, 85-87). There is an amount of literature available which shows that coalition government has an adverse impact on countries economic policy. As some scholars argue, the political and economic factors always affect coalition government's stability and government's stability has a negative effect on countries economic policies (King et al. 1990, 846-48; Warwick 1994; and Iorio 2007, 36-37). As Iorio (2007, 36-37) argues, in the coalition government, the size of the ruling coalition (number of the coalition partners in coalition government), time horizon to the next scheduled election, and the economic policies affect the government stability. Because of this political instability, coalition government avoids changing any economy policy and the government tries to delay free trade policy reform.

The coalition government could delays the process of free trade policy reform through blame-game politics by coalition partners. In a coalition government, if the government makes a decision on free trade policy reform and if free trade policy reform goes wrong or harms the economy, then coalition partners blame the other coalition partners for the bad free trade policy. But if governments have not adopted free trade policy reform, then also coalition partners easily could blame other coalition partners for the non-adoption of a free trade reform.[2]

Most of the time government tries to keep avoiding any strong decision regarding free trade policy reform in a coalition government. Why do coalition governments avoid taking a decision on free trade policy reform? They keep delaying free trade policy reform, because if the government took a decision on trade reform and if that goes wrong or harms country's economy then it is easy for the politicians to blame other coalition partners for the bad policy. And if the government did not adopt or change trade policy, it is also easy for a politician to blame other coalition partners for the non-

[2] As Dellis 2007 argue that, in "*2002 French presidential election campaign President Chirac (Conservative Party) blamed Prime Minister Jospin (Socialist Party) for the non-adoption of homeland security reforms. And in May 2003, just before the general election, the two major parties in the Belgian coalition government were blaming each other for not having reformed the judicial system*" (Arnaud Dellis. 2007. "Blame-game politics in a coalition government." *Journal of Public Economics* 91 (1-2): 90).

adoption of a free trade policy reform or not changing the trade policy (Dellis 2007, 90-91). As Dellis argues, because of blame game politics in the coalition government, "neither coalition member is willing to grant a favor to a coalition government, passing a reform that hurts him but benefits his coalition partner, in exchange for future relations" (Dellis 2007, 82-85).

The coalition government could delays the process of free trade policy reform through multiple actors and multiple veto players. As coalition government is composed of multiple coalition partners it is very difficult to agree on the adoption of a specific trade reform policy or changing the old trade policy, because all coalition partners have different interests (Vowles 2010, 373-75).

There are more than one coalition partners in every coalition government. If coalition government wants to change trade policy form protective trade policy to free trade policy or government wants to adopt free trade policy, in that case, majority of coalition partners need to agree for policy change. It makes difficult for multiple actors or multiple veto players to agree on particular policy. As Vowles (2010, 371) argues each coalition partners have different interest, and that makes difficult for the coalition government to adopt a free trade policy reform or change the trade policy from proactive to free trade policy.

Several scholars argue, that the bargaining associated with coalition government formation hinders efficient policy making. This bargain may have negative effects on free trade policy (Moore and Mukherjee 2006, 316-17; Laver and Schofiedl 1990; and Freeman et al. 2000, 466). Earlier studies indicate that political uncertainty about the coalition government may reduce the exchange rate level. And the reduction in exchange rate level could foster capital outflows from a particular country and thus have a negative effect on the particular country (Freeman et al. 2000, 152). They conclude that coalition government may have a statistically significant negative impact on trade and exchange rate (Moore and Mukherjee 2006; Bernhard and Leblang 2002; and Laver and Schofiedl 1990, 450-51).

However, other scholars argue, a coalition government may have no effect on the efficiency of making trade policy through two ways. Firstly, Moore and Mukherjee (2006, 113-14) argue, the mainly coalition government has political uncertainty, and that political uncertainty may lead to the lower exchange rate and lower exchange rate may have a positive effect on countries free trade policy.

Second, several other scholars argue that political leaders' involvement in the coalition bargaining process for ministerial portfolios in the future government. These politicians involve for the ministerial portfolios because they recognize that uncertainty associated with government formation does not have detrimental effects on exchange rates. Third, several studies suggest politicians in the coalition form of governments may have low economic incentives. Politicians are also less inclined to formulate systems to check frequent government formation, given low economic incentive for the same.

The existing empirical literature focuses on cross countries studies, and for this reason, it is not informative in relation to how the democracy affects the free trade policy performance for single case studies. This study adds to the literature by using a single case study of India. The theoretical foundations of the previous studies discuss the relationship between democracy and free trade policy. However, most of the previous studies overlook the importance of the type of democracy (consociational democracy) on free trade policy reform.

This study argues, that democracy has a positive impact on free trade policy reform, but in consociational democracy federalism and coalition form of government delay the process for free trade policy reform (from protective trade policy to free trade policy) in India. In other words, the federal system and coalition government hamper the free trade policy reform in India.

CHAPTER 3

Trade Policy in India: Pre-Trade Reform Period (1947~1990)

This part of the study analyses the trade policy in India: the pre-reform period from 1947 to 1990. The questions addressed in this chapter are as follows: Why does Indian government try to liberalize trade policies and why does government reverse the liberalization policies? What are the main political and economic factors behind the liberalization and reversal of liberalization policies in India?

Economic development is the primary objective of most countries. India's trade and economic growth has been accelerated in recent years and its share of world trade has also expanded. As a consequence, trade and economic policy in term of liberalization became a matter of serious concern for the policy makers and economic planners. Economic and trade policies play a vital role in the development of developing countries because they could solve problems of general poverty, unemployment, backwardness, low production, low productivity, low standard of living, etc (Sharma 2014, 3-6). In changing political-economic dynamics of Asia, India needs very firm economic policies which would make its position strong in the Asia and in the world.

The term "trade or economic reform policy" has a different meaning in different situations. "The reform ultimately refers to the behavioral pattern in a particular economic system and it is not just changed in economic policies" (Agnihotri et al. 1996, 24).

Determination of success or failures of the reform process depend on the interaction between policy reform and changes in the economic system. The scholar Kornai (1986, 1687-90) stated that "Liberalization policy means diminishing the role of political coordination and increasing the role of the market".

Other scholars Bates and Krueger stated, "Significant changes in a sizeable number of trade and economic policies as part of a package of policy liberalization" (Bates and Krueger 1994, 5). Therefore, liberalization policy means not only improvised and piecemeal changes in policy but also fundamental changes with respect to the extent of various elements like state intervention, greater reliance on market forces, institutional and administrative changes, stabilization effort and removal or relaxation of controls.

Before the 1990s, India had controlled and centralized economic policy and there were few exports of goods. India did not expand in the service sector to the foreign market and also did not open its economy to foreign investments. Indian trade policy was oriented to save its domestic market and ensures the country's independent development (the *swadeshi* [3] principle). The Indian

[3] Swadeshi means self-reliant or independent development. Gandhi's proposed *swadeshi* was not a hindrance to development. His concept was simple: India should be a self-reliant state and should produce commodities for internal consumption on its own and should not rely on foreign countries for the same. Gandhi's interpretation of *swadeshi* was not against trade, but

governments stamped out the domestic competition through strict investment licensing. The Indian governments also eliminated foreign competition with the help of various kinds of barriers to the foreign investor.

Before 1991, Indian government tried to liberalize Indian trade policy four times from 1947 to 1990. However, Indian government reversed their liberalization policy decision repetitively. The analysis about the liberalization and the reversal of liberalization policy in India will help examine the main determinants of India's trade policies.

1. The Initiation of Controlled Trade Policy (1947~1984)

1) First Trade Reform

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rather saw trade as a solution to certain problems that was not to be used indiscriminately.

It was only after independence that a trade policy[4], as a part of general the economic policy of development, was formulated in India (Shaikh 2010, 85-86). After attaining independence in 1947, India adopted a democratic political system based on universal franchise and a federal structure. Scholars argue an era of protectionism based on a development strategy was from 1947 to 1980 in India. Before the 1980s, India's trade policy was more limited and it could be called the 1947 to 1980 period as the initiation of controlled trade policy. India's trade policy was more favorable to its domestic industry and agriculture production. Over the years this gave rise to the architecture of permits, permissions, and licenses to provide protection to domestic industry. After 1947, the Congress party was the dominant political party, which ruled without interruption for about three decades after independence.

[4] Before leaving India, the British gave another hard blow to India. They divided the country into two parts, the Indian Union, and Pakistan. British did many developmental works for India and they invested heavily in a railway system. However, these all investment and development to exploited Indian resources in a better way and at huge scale (Indira Gandhi National Open University. 2002. "Indian Economic Development since Independence." *Indira Gandhi National Open University*, School of Social Sciences; Stuart Corbridge. 2009. "The Political Economy of Development in India since Independence." In *Routledge Handbook of South Asian Politics: India, Pakistan, Bangladesh, Sri Lanka, and Nepal*, ed. Paul R. Brass. London and New York: Routledge publication: 305-307).

In 1951, Nehru government concentrated on the trade policy and liberalization of Indian economy. What is the reason for the 1951 liberalization policy? There are several economic and political factors (economic crisis, the ideology of government and other factors) which forced Nehru government to liberalize its economic policy in 1951 (Table 3-1).

Table 3-1 First Liberalization of Trade Policy in India

Date		7th December 1951
Initiator		Jawaharlal Nehru (the first Prime minister of India)
Contest		Charan Singh
Causes	Economic crisis	Balanced of payments crisis and foreign exchange crisis
	International pressure (IMF/WB)	-
	The political ideology of P.M.	Socialist ideology of P.M. Nehru
	Type of govt.	Single party government
	Others	The partition from Pakistan
Economic Reform		Import policy reform, Tariff policy reform, and Industrial development

Note: *Single Party Government

In the economic front, India faced several economic crises like balance of payments crisis and foreign exchange crisis. There was a mass illiteracy. The partition of the country in 1947 also affected the economic unity of India. It has seen the political justification of partition but its economic consequence was disastrous.[5] Before 1951, India has less than 17% of the population which was literate (IGNOU 2002, 50). Indian economy was a poor agriculture based economy. Around 75% of the Indian population was engaged in the agricultural sector. In spite of agriculture based economy, India was not self-sufficient even in food grains production.[6] The level of industrial activity was very low. A big proportion of industries were concentrated in a few cities.[7] In order to get rid of poverty, Jawaharlal Nehru government's first priority was to develop agriculture and industry. Nehru government's priority was to

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[5] India's first economic plan started during the crisis of partition of the country in 1947. A new country Pakistan was carved out of India and India lost its Jute economy to East Pakistan (now Bangladesh) and it also lost a major port city, Karachi. The First Five Year Plan (1951-56) was something broadly neutral as between the agricultural and non-agricultural sectors (Stuart Corbridge. 2009. "The Political Economy of Development in India since Independence." In *Routledge Handbook of South Asian Politics: India, Pakistan, Bangladesh, Sri Lanka, and Nepal*, ed. Paul R. Brass. London and New York: Routledge publication: 305-320; Sanjiv Singh. 2015. "Impact of World Trade Organization on Foreign Trade in India." *New main International Journal of Multidisciplinary Studies* 2 (2): 50-56.

[6] The agricultural sector entirely depended on rain for irrigation. As and when the monsoon or winter rain failed the country faced a drought.

[7] The industrial development took place around north Indian city, Calcutta, and Bombay. These were the places of a plantation (Tea plantation around Calcutta and cotton textile around Bombay (Indira Gandhi National Open University. 2002. "Indian Economic Development since Independence." *Indira Gandhi National Open University*, School of Social Science: 10-15).

developed agriculture as it provides the raw material for an industry as well as food for the population, and similarly, industrial growth provides sustainable development of the economy (Kniivilä 2007, 303-05).

A planning commission was set up in March 1950 by the Cabinet Resolution with the Prime Minister Jawaharlal Nehru as its ex-officio Chairman to formulate five year-plan for the economic development of the country (Chakravarty 1987, 7).

The stated objective was to establish a socialistic pattern of society. At that time India wanted a balanced approach to the development of the Indian economy, Nehru government opted for a planned economy. And on 7th December 1951, the planning commission of India presented the first "Five Year Plan" (FYP) for developments which was drafted by a 9 members committee (committee members are Jawaharlal Nehru, Gulzarilal Nanda, V. T. Krishnamachari, Chintamani D. Deshmukh, G. L. Mehta, R. K. Patil, G. Durgabai, N. R. Pillai and, Tarlok Singh) chaired by Prime Minister Jawaharlal Nehru (Planning Commission of India 1951) (Table 3-1). The Jawaharlal Nehru government, which had a clear mandate from the people, had implemented the public sector-dominated and import substitution-based policy with small resistance from other parties.

Indian scholars Bhagwati and Desai (1970) claims that, the period of the first five-year plan (1951-56) was one of progressive liberalization policy. It had a great role in the launching of Indian development after the Independence (Mishra 2014, 1). But the congress leaders like Charan Singh [8] who opposed the Nehru's progressive liberalization policy (Table 3-1). He argues that the 75% of the Indian population was depending on agricultural sector and Soviet-style progressive liberalization policy would not succeed in India (Corbridge 2009, 309-11). However, Nehru government successfully implemented progressive liberalization policy.

The first five-year plan (FYP) has a dominant role for the public sector in industrial development and a strategy based on import substitution necessitated by scarce foreign exchange resources and its main goal was "structural adjustment". The government takes some measures for liberalization of imports. Government liberalized trade policy through tariff rate (the India Tariff (Second Amendment) Act of 1954) which changed the tariff rates for 32 items, permitting the Government to increase import quotas and issue additional licenses over and above normal entitlements (Narayan 2009, 172-74).

[8] The great Jat farmers' congress leader, Charan Singh, had opposed Jawaharlal Nehru on his Soviet-style progressive liberalization policy. Being a son of a farmer, Charan Singh opposes the liberalization policy and he argues that Soviet-style cooperative farms would not succeed in India. However, the government implemented the liberalization policy. And later Charan Singh's political career suffered due to his open criticism of Nehru's economic policy.

However, the industrial policy regime was restrictive in first liberalization policy (Panagariya 2004, 53-55).

The planning commission divided the industry into three groups. The first group was "commanding height" industries groups, which related to defense, heavy industry, most mining, aircraft, air and rail transport, communications, and power (Sarkar 2009, 225).

The second group opened to both public and private initiative. The third group included most consumer goods industries, which were to be left to private enterprise. All categories of import and export policy were subject to control under the industries (development and regulation act. of 1951) (Planning Commission 1951).

Nehru government’s main object for the industrial policy was to establish a dominant role of the public sector in heavy industries and to introduce a system of public distribution of goods and price control. The government started regulating private business through licensing (Bhagwati et al. 1970, 336-39). Das (2014, 24) argues Nehru’s focus on industry resulted in a neglect of agriculture in setting plan priorities.

2) Reversal of 1951 Trade Liberalization Policy in India

The first FYP of liberalization policies was not sustained and in 1956 (on second FYP: 1956~61) Nehru’s government reversed the liberalization policy. The question arises why 1951 of progressive liberalization policy have not sustained and what is the factor behind this reversal of liberalization policy? There are various factors which forced a government to reverse trade liberalization policy in 1951 (Table 3-2).

First was the economic crisis, during 1956/57, when India faced heavy deficits in the balance of payments and extremely tight payments position (Acharya 2009, 25-26). The major reason for the balance of payment was the export pessimism that had gripped the policy makers. As Soundarapandian (2009, 228-29) and Jalan (1992, 188) describe that "*Balance of payments deficit as a percent of GDP has also increased from a deficit of 0.17 percent during the 1950-54 periods to 1.038% during 1956-57. BOP account turned from a surplus of $38 million in 1955-56 to a huge deficit of $620 million in 1957-58.*" Balance-of-payments crisis and foreign exchange crisis in 1956-57 put an end to 1951 liberalization phase and comprehensive import controls were restored and maintain until 1966.

Table 3-2 Reversal of 1951 Trade Liberalization Policy in India

<table>
<tr><td colspan="2">Date</td><td>14th May 1956</td></tr>
<tr><td colspan="2">Initiator</td><td>Jawaharlal Nehru (the Prime minister of India)</td></tr>
<tr><td rowspan="2">Causes</td><td>Economic crisis</td><td>A balance-of-payments Foreign Exchange Crisis in 1956</td></tr>
<tr><td>The political ideology of P.M.</td><td>Socialist ideology of P.M. Nehru</td></tr>
</table>

	Type of govt.	Single party government
	Political Opposition	Supported the reversal of 1951 liberalization policy
	Others	-

The second was the political ideology of Indian Prime Ministers and political opposition. India's first Prime Minister Jawaharlal Nehru was socialist with Marxist sympathies. As Joshi and Little (1994) described "Nehru was a Fabian socialist with Marxist sympathies whose economic views were highly heterodox by British standards but not in the case of a fiscal sphere. All of these economic planning go with a distrust of business and some of them at least with ignorance of the allocation role of the price mechanism and genuine concern for the poor. Permitting inflation harmed the poor and it is seen as a loss of control and an abrogation of the proper role of the state" (Joshi and Little 1994, 36-39).

Third, the first five-year plan was not implemented in tight direction and it broke down almost before the Second Five Year Plan the emergence of growing fiscal and balance of payment deficits. Because of this, there was a crisis which resulted to imposing of stringent import and foreign exchange controls and price controls (Joshi and Little 1994, 68). These controls outlasted the crisis and became a dominant feature of trade policy up to 1980s.

The balance-of-payments crisis, the 1956 foreign exchange crisis in 1956/57[9] and Nehru's ideology forced a government to reverse the liberalization policy which was started in the first FYP. According to Panagariya (2004, 2-3) the crisis and Nehru's ideology left a sufficiently deep impression on the Indian government and it made the allocation of foreign exchange across various activities which are the central objective of trade policy. On the 14th May 1956, Jawaharlal Nehru (the Prime Minister of India) presents the second FYP[10] with the reversal of 1951 trade liberalization policy (Panagariya 2004, 2).

Indian government's second FYP plan was based on modified Soviet Model (Panagariya 2004, 2) or Mahalanobis model[11] which

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[9] Indian governmental financial year starts from 1st April and it ends on 31 March. That is why 1956/57-period covers from 1st April 1956 to 31st March 1957; it could also call as the fiscal year 1957.

[10] Second Five-Year-Plan (FYP) was drafted by a committee (8 members committee: V. T. Krishnamachari, Gulzarilal Nanda, Chintamani D. Deshmukh, K. C. Nagoya, J.C. Ghosh, Y. N. Sukthankar and, Tarlok Singh, chaired by Mr. Jawaharlal Nehru) presented by India's Prime Minister Jawaharlal Nehru on 14th May 1965.

[11] Mahalanobis model is a growth model which was adopted by the Indian government on second five years plan. During the formulation of the 2nd FYP, Prof. P.C. Mahlanobies (a planning commission member) prepared a growth model with which government could achieve a rapid long-term growth. Mahalanobis strategy of development emphasizing basic heavy industries which were adopted first of all in the Second Plan also continued to hold the stage in Indian planning right up to the Fifth Plan which was terminated by

featured the promotion of capital-intensive industry in the public sector, especially steel and other metals as well as heavy machinery. The development would require rapid rises in such modern inputs, and exports could not be expanded fast enough to buy them abroad (Joshi and Little 1994, 8-10). In second FYPs (1956~61) government concentrated on "structural adjustment" policy. For structural adjustment policy, the government increased the trade restrictions and gave priority to agricultural and public sector developments. The government emphasized on the import control regime and the government denied foreign exchange to import a product if domestic substitutes were available in sufficient quantity (Narayan 2009, 175-76).

Investments in public sector enterprises were, in any case, subject to direct planning. Physical capacity controls extended to private sector investments as well. This was achieved through an exhaustive licensing system along with a detailed setting of targets by the Planning Commission while formulating the five-year plans (Narayan 2009, 175).

The third five-year plan essentially continued the investment patterns of the second plan and the third plan mostly neglected the agriculture and export opportunities. Thereafter, plans continued to

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the Janata Government in March 1978, a year before its full term of five years.

be produced but they ceased to be of any decisive macroeconomic importance. Government brings a new system for industrial development and what is called "License Raj System" (permit system).

The "License Raj System" (permit system) was one of the central causes behind control over domestic and foreign trade. The "License Raj System" and the deep crisis left in the political leadership as well as self-interested bureaucracy results into no clear trade policy and undermine the economic priorities.[12]

3) Second Trade Reform

On 1966, Lal Bahadur Shastri government started initiative to liberalize Indian trade policy. What is the reason for 1966 trade liberalization policy? There are several economic and political factors (economic crisis, the ideology of government and other factors) which forced Shastri government to liberalize its economic policy in 1966 (Table 3-3).

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[12] License Raj System (is also called Permit or quota Raj) is a shorthand description of the licenses and quotas that characterized Indian economic policies before 1991. It refers to the scenario between India's independence in 1947 and year 1990, where the complex licensing system, elaborate regulation, and red tapism were prevalent in the country and to start and operate a business in India required strict compliance with them (Philippe Aghion, Robin Burgess, Stephen J. Redding, and Fabrizio Zilibotti. 2008. "The Unequal Effects of Liberalization: Evidence from Dismantling the License Raj in India." *American Economic Review* 98 (4): 1397-1398).

Table 3-3 Second Liberalization of Trade Policy in India

Date		28th February 1966
Initiator		Sachindra Chaudshuri (6th Finance Minister of India)
Contest		Jan Sangh (the Opposition party in government) and Socialist Party
Causes	Economic crisis	Foreign exchange crisis
	International pressure (IMF/WB)	India's dependency on the IMF and the World Bank
	The political ideology of P.M.	Socialist ideology of P.M. Shastri
	Type of govt.	Single party government
	Others	War with China in 1962 and with Pakistan in 1965
Economic Reform		Devaluation of Indian Rupee and Import Policy (licensing policy) reform

In the economic front, India is facing economic crises like balance of payments crisis. In 1960s India faced two wars, the war with China in 1962[13] and wars with Pakistan in 1965, and both these wars had a negative effect on Indian economy. As Frankel (1978)

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[13] In 1962, India had suffered a humiliating defeat at the hands of China and, emboldened by the Chinese success, Pakistan engaged India in the Rann of Kutch between April and June 1965, and had opened another front in Kashmir's Chamb sector by 1 July 1965. (Sumit Ganguly. 1994. *Origins of War in South Asia*. Boulder and Colorado: West view Press; and Vijay Joshi and Ian M. D. Little. 1994. "Recent History and a profile of the economy." In *India: Macroeconomics and Political Economy: 1964-1991*, ed. Vijay Joshi and Ian M. D. Little. Washington D.C.: The World Bank: 15- 18).

describes that "The wars had come with severe droughts and stagnant agricultural production, which had not grown between 1960 and 1963. Subsequently, food-grain production dropped by 17 percent between 1964 and 1965. The wholesale price of food-grain shot up by 14 percent and by November 1965, all buffer stocks of food had been exhausted" (Frankel 1978, 286). The War with China and Pakistan and droughts ended with the balance of payments crisis in 1966.

International pressure, weakness of the balance of payments and the shortage of food resulted in an increase of the economy's dependence on foreign aid and loans (Joshi and Little 1994, 40). Due to India's war with China in 1965 and war with Pakistan in 1965, India's defense expenditures had risen from 2 % of the gross domestic product (GDP) in 1960 to 4% of GDP in 1964 (Mukherji 2000, 378-80). After war, India needs to import food at reasonable prices, but the shortage of the foreign exchange made India critically dependent on the U.S., the World Bank, and the IMF.[14] At commercial

[14] At a time when India needed cheap food grain imports the most, suppliers were unwilling to oblige. Dismayed by the war between India and Pakistan, the U.S. terminated the four-year agreement for food aid to India and Pakistan under the PL 480 program in June 1965. The non-U.S. donors were not willing to oblige either. France would only sell wheat on commercial terms; the Soviet Union was not prepared to listen to India's requests until December 1966; and Canada could only provide a limited amount of wheat owing to problems at its West Coast grain terminals (Rahul Mukherji, Op Cit,

prices, India would have needed to pay $400 million for food imports (Paarlberg 1985, 146). As Mukherji (2000, 380) argues "*U.S President Johnson wanted to see India move in a more market-friendly direction before supplying the 5.7 million tons of wheat that India still needed*". Therefore India was highly dependent on Western donors for food-grains and foreign exchange.

In political front, India's Prime Minister Lal Bahadur Shastri, who succeeded Nehru in 1964, wanted to change the emphasis from heavy industry to agriculture sector. As Das (2014, 22-25) argues Prime Minister Shastri laid the foundation of Green Revaluation, which stands for the use of genetically modified high-yield seeds to raise land productivity. In the period of economic crisis, the planning commission voted sweeping authority to Prime Minister Shastri to amend the plan as necessary for this national crisis (Mukherji 2000, 379). As Frankel argues the planning commission requests Prime Minister Shastri to make policy to meet the "*emergent situation and safeguard the country's security and long-term interests" (*Frankel 1978, 285). In a situation of dire emergency, "*Shastri directed India's planning commission to draft an annual plan for 1966-1967 in*

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pp. 380-382; Robert L. Paarlberg. 1985. *Food Trade and Foreign Policy: India, the Soviet Union, and the United States*. Ithaca and London: Cornell University Press: 146, 158-59).

advance of the draft outline of the Fourth Five-Year Plan" (Mukherji 2000, 379).

On 28th of February 1966, Lal Bahadur Shastri government's finance Minister Sachindra Chaudshuri presented the Annual Plan for the liberalization policy on parliament (Table 3-3). Not only the main opposition party in parliament or socialist parties (communist parties like CPI, CPM, and other political parties) oppose government liberalization policy, but from inside the government also opposed the government's liberalization policy.[15] However, Shastri's government implemented the liberalization policy. Indian government liberalized police through structural adjustment, like devaluation of rupee, (the devaluation of rupee was considered to promote trade because it would render Indian export cheaper in foreign markets while making

[15] For example, inside government, a leader like T. T. Krishnamachari, the recent finance minister also opposed the liberalization policy. It is believed that Shastri (Prime Minister of India) felt that devaluation was acceptable if it was necessary to ensure sufficient imports of cereals; but that T. T. Krishnamachari, the finance minister in 1965, was resolutely opposed to it. Krishnamachari resigned at the end of the year and was succeeded by Mr. Sachindra Chaudshuri in January 1966. And also the negotiations with the IMF were complicated and that also delayed by this political conflict (Vijay Joshi and Ian M. D. Little. 1994. "The Crisis of 1965-67: Antecedents and Consequences." In *India: Macroeconomics and Political Economy: 1964-1991*, ed. Vijay Joshi and Ian M. D. Little. Washington, D.C.: The World Bank: 76-78).

imports more expensive)[16] and priority for agricultural and public sector developments.

Sastri's government took steps toward liberalization of import licensing, tariff and export subsidies. These measures were extended to 59 industries covering 80 per cent of the organized sectors output. The government gave freedom to industries to import their raw materials and components. However, in order to obtain licenses Raj system remained due to a continued application of the principle of indigenous availability. This complex application process limited the scope of import liberalization (Narayan 2009, 172-73).

4) Reversal of 1966 Trade Liberalization Policy in India

The liberalization policy of 1966th year was also not sustainable and in the end of 1968 Indian government reversed the 1966 trade liberalization policies. The question arises here. Why has not the second liberalization policy also sustained and why did Indian

[16] The value of the rupee was brought down from rupees 4.76 to the dollar ($) to rupees 7.50 to the dollar. Devaluation of rupee was considered to promote trade because it would render Indian export cheaper in foreign markets while making imports more expensive (L.G. Burange and Rucha R. Ranadive. 2011. "The Evolution of Exchange Rate Regimes: A Review." *Working Paper UDE 36/09/2011: 18-19*).

government reverse 1966 liberalization policy? There are several reasons behind the failure to maintain trade liberalization policy in India (Table 3-4).

Table 3-4 Reversal of 1966 Trade Liberalization Policy in India

Date		20thMarch, 1968
Initiator		Morarji Desai (Finance Minister)
Causes	Economic crisis	An industrial recession in 1967
	The political ideology of P.M.	-
	Type of govt.	Single Party government
	Political Opposition	Political opposition, as well as her supporter, opposed the 1966 trade liberalization policy
	Others	India's organized capital was seeking protection from international market

First, on the economic front, the devaluation of the rupee (1966) coincided with the second consecutive drought in the country, which led to an industrial recession (Panagariya 2004, 3). At the same time, much of the aid package of $900 million promised by the World Bank, who had urged the government of India to devalue, could not be utilized in 1966–67 due to the recession. It was not possible to consider dismantling protective barriers while there was a lack of effective demand for output in several industries (Narayan 2009, 172-74). According to Bhagwati and Srinivasan (1975, 16), by the end of 1968 intense domestic reaction to the devaluation led India to turn inward with vengeance.

Second, on the political front, ideology and opposition, also plays a crucial role in a reversal of trade liberalization in India. The political scene in India changed radically after the death of Prime Minister LB Shastri in January 1966.[17] The congress Party was engulfed by the internal struggle. An acting Prime Minister Indira Gandhi came to lead the government. Indira Gandhi had uneasy relationships with some senior leaders of the Congress Party, which resulted in the split in congress party.

However, Indira Gandhi became a Prime Minister and was just learning to play the premier role and did not have a mature political-economic experience to implement the trade policy in the right

[17] The India political system faced a big political crisis from 1964 to 1966. First India's first Prime Minister Jawaharlal Nehru died, before the Indian agricultural crisis fully came into existence but immediately after India's defeat in 1962 Sino-Indian War. He died in 1964 and in this venomous environment Lal Bahadur Shastri took the charge in 1964. After taking charged as a prime minister, India faced agricultural crisis and Shastri government took a step towards liberalization but he died in January 1966. And then Nehru's daughter Indira Gandhi took the charge of the country as its prime ministers (Stuart Corbridge, Op Cit, pp. 313-314; Vinayak M. Dandekar and Nilkanth Rath. 1971. "Poverty in India: dimensions and trends." *Economic and Political Weekly [EPW]:* 6 (1): 230-235).

direction. Therefore most members of parliament and even Gandhi's supporters also opposed the trade liberalization policies as the result of the lack of knowledge of how to continue trade liberalization policy. In order to survive politically, she moved towards the left of center and was responsible for highly restrictive foreign trade and investment regimes and an interventionist industrial policy (Das and Das 2014, 26).

As Mukherji argues "Indira Gandhi had an image perceived as soft towards the left, having supported activities organized by socialist forum groups in the late 1950s. She was very accessible to leaders of the left opposition parties and had been good friends with communist party leader like Bhupesh Gupta and Mohan Kumara Mangalam since her days in London" (Mukherji 2000, 382).

On 20th of March 1968, Indira Gandhi's government finance minister Morarji Desai decided to reverse the 1966 liberalization measures and further tighten structural adjustment like tightening import controls (Table 3-4) (Mukherji 2000). Almost all liberalization initiatives were reversed and import controls tightened. During 1969-70, the liberalization policy of India appeared to have been largely reversed. The import premium was back to 30-50% on average. The export subsidies were reinstated and were up to high levels industrial de-licensing amounted to little because of continuing quantitative restrictions (QRs). Automatic protection with quantitative restrictions was prevalent and the picture looked very similar to that which obtained during 1962-65 (Bhagwati and Srinivasan 1975, 16). The Import controls regime was consolidated as well as strengthened in the subsequent years and remained more or less intact until beginning of a period of phased liberalization in late the 1970s (Soundarapandian 2009, 226).

5) Third Trade Reform

In 1976 Indian government again came back to liberalized policy. What are the factors that forced government to liberalize trade policy in 1976? There are several economic and political factors for the liberalization of trade by the Indian government to in 1976.

Table 3-5 Third Liberalization of Trade Policy Reform in India

Date	28th February 1976
Initiator	C. Subramaniam (Indian Finance Minister)
Contest	Opposition parties leaders like V.P. Singh, Chandra Shekhar, and other Socialist leaders
Causes	Economic crisis and price inflection

	Economic crisis	
	International pressure (IMF/WB)	The IMF influence on trade liberalization policy in India
	The political ideology of P.M.	P.M. Indira Gandhi wants to change pro-poor socialist image to progressive image
	Type of govt.	Single party government
	Others	The War with Pakistan for Bangladesh independent in 1971 and the adverse effect on the tight import restrictions
Economic Reform		Open general licensing system for export and Import reform

In the economic front, the economic crisis is one of the main factors which forced the Indian government to liberalize trade in India. The late 60s and the early 70s were very difficult years for the Indian economy. First, the unsatisfactory behavior of agricultural production in the monsoon season not only affected the economy through the overall growth rate in India but also greatly increased the pressure on price inflection. Second, the war with Pakistan for Bangladesh independent in 1971 (Joshi and Little 1994, 52-55) has a bad effect on India's macroeconomic conditions.

International pressure also plays a crucial role on trade liberalization in India. In 1976 the IMF have a major influence in shaping India's trade liberalization policies. For instance, India's loan of $ 1.8 billion from the IMF led to uncertainty about the implications of such transaction. India also attempts to adopt domestic policies to improve the situation. The adoption of policies included deregulation of industry, more encouragement to foreign investment, liberalization of foreign trade regimes, a major reform of public sector enterprises and sweeping reform of the financial sector (Soundarapandian 2009, 219).

In political front, during the early and mid-70s Indira Gandhi had to face political challenges that made it imperative to project a new pro-poor socialist image. She sought to identify with the poor and underprivileged with new schemes to help them through liberalization policy. Indira Gandhi policy was to eliminate the poorness from India (in Hindi slogan was *Garibihato)*.

All of these conditions which forced Indira Gandhi governments to liberalize India's economy. On the 28^{th} of February 1976, C. Subramaniam (Indian finance minister) presented the finance budget to the parliament about an open general licensing system in order to improve the liberalization policies in India (Table 3-5).

Government liberalized trade policy through the structural adjustment like the nationalization of banks, removal of privileges of erstwhile rulers of princely states, and nationalization of coal and oil followed in rapid succession (Table 3-5). For the accumulation of a healthy foreign exchange reserve, the Indian government was interested in improving country's export performance as well as the remittance received from Indian Diaspora in the Middle East (Reserve Bank of India. 2011). However, opposition parties' leaders like V.P. Singh, Chandra Shekhar, and other Socialist leaders oppose the Open General Licensing (OGL).[18] There was strong opposition from the other side but government implemented the liberalization policy (Table 3-5).

6) Reversal of 1976 Trade Liberalization Policy in India

In 1978, Indian government reversed the liberalization policy. Now the question arises. What are the reasons behind the reversal of 1976 liberalization policy? There are several reasons which forced a government to reverse the liberalization policy of 1976 (Table 3-6).

Table 3-6 Reversal of 1976 Trade Liberalization Policy in India

Date		17th June 1978
Initiator		H.M Patel (Indian Finance Minister)
Causes	Economic crisis	The food price inflation was higher (around 20 %)
	The political ideology of P.M.	The socialist ideology of P.M. Desai and finance minister Patel.
	Type of govt.	Coalition government

[18] The introduction of the Open General Licensing (OGL) list resulted into the beginning of the new phase of trade liberalization.

	Political Opposition	Supported
	Others	Instability in coalition government

On the middle of 1970s, India faced political crises like instability in the coalition government which have a negative effect on liberalization policy in India. A socialist ideology of Prime Minister Desai and finance minister H.M. Patel, the food price inflation and fiscal difficulties[19] forced government to reversed 1976 liberalization policy.

Desai government's ideology and the instability in the coalition government are important factors which forced the Indian government to liberalize trade in India. After 1975 Indira Gandhi national emergency,[20] the first non-congress government came to

[19] In 1978, Indian government faced the difficult situation on the fiscal deficit (as 1978 budget also showed a very large increase in the fiscal deficit which forced the Indian government to borrow money from the Reserve Bank).

[20] The national emergency was declared by Prime Minister Indira Gandhi in response to the increasing political pressure from the opposition, who were trying to fight over prevalent corruption, inflation and overall economic chaos the country were facing. Indira Gandhi's government could not take this problem as a political challenge but she declaring a national emergency and imprisoning the opposition party leaders. The national emergency did not have a direct impact on trade, however as Joshi (1994) argues it encourage the "deinstitutionalization of politics." and, this was to have indirect macroeconomic effects over the longer run. (Vijay Joshi and Ian M. D. Little.

power at the center. Peoples party (Janta Party) formed its government in 1977. Morarji Desai becomes prime minister from people's party (Janta Party) coalition government and H.M. Patel becomes the finance minister of Desai government. As Joshi and Little (1994, 56) argue, in Desai government both Prime Minister Desai and finance minister Patel beloved in socialist's model and both are "financial conservatives of the old school."

In 1977, when people's party (Janta Party) coalition government came in power and Morarji Desai became prime minister, that time the strong leader of people's party (Janata Party) namely, Morarji Desai, Charan Singh, and Jagjivan Ram had almost the same stature in the Party. Therefore, their personal ambitions kept them at loggerheads and that made Janta party coalition government unstable. This internal struggle made hard to run the country for the government and there was no strong decision taken which resulted in bad economic policy. As Joshi and Little (1994, 59-60) describes "*by July 1979 Parliament presented an unsavory spectacle of byzantine intrigue, defections, and counter defections*". And that resulted from Charan Singh to succeed in forcing Morarji Desai out of the office in July 1979 and becoming prime minister in his place. In doing so, he

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1994. "A Sketch of Political and Macroeconomic Developments from 1964 to 1991." In *India: Macroeconomics and Political Economy: 1964-1991*, ed. Vijay Joshi and Ian M. D. Little. Washington, D.C.: The World Bank: 56- 56).

broke the people's party and had to rely on parliamentary support from Indira Gandhi and her followers. This support was withdrawn after 28 days, and in due course, the president decided to dissolve the parliament and call fresh elections.

Prime Minister Desai and finance minister Patel's socialist ideology and instability in people's party coalition government forced Desai government to reverse the 1976 liberalization policy. On 17th of June 1978, Morarji Desai's coalition governments finance minister H.M. Patel, presented a budget regarding Rolling Plan and government reverses the 1976 liberalization policy.[21]

2. Moving Toward Open Market Trade Reform Policy (1985~1990)

1) Fourth Trade Reform

From 1947 to 1984 the Indian government's main strategies were to protect domestic market from outside world. From the 1980s, Indian government started to loosen its control on import and

[21] There was also another economic problem, which was started as controls on tightening in the wake of the 1966 devaluation. In 1976 Indian government introduced Open General Licensing (OGL) list contained only 79 capital goods items. This also forced Desi government to reverse the liberalization Policy.

investment licensing, and in 1985 Indian government liberalized trade policy. What are the reasons which forced the government to liberalize policy in 1985? There are several reasons which forced Rajiv Gandhi's government to liberalize policy in 1985 (Table 3-7).

Table 3-7 Fourth Liberalization of Trade Policy in India

Date		21st November 1985
Initiator		V. P. Singh (14th Finance Minister of India)
Contest		Jan Sangh (the Opposition party of govt.) and Socialist Party
Causes	Economic crisis	A balance of payment and Foreign exchange crisis
	International pressure (IMF/WB)	Pressure from the IMF for trade liberalization policy
	The political ideology of P.M.	The progressive ideology of P.M. R. Gandhi
	Type of govt.	Single party government
	Others	-
Economic Reform		Reform on direct taxation, De-licensed 82 products.

On the economic front, India faced several economic crises and political difficulties in the 1980s. During 1980-1985 Indian economy suffered from both internal and external shocks. Internal shocks like agricultural production fell by 15.2 % and food grain production by 17.6% (Joshi and Little 1994, 64-65). External shocks like the rise of oil prices led to power shortages which in turn led to shortage of coal and transport facilities in 1980-81 (Soni 2014, 11). Industrial performance remained below expectations and fresh initiatives were clearly necessary to spur dynamism in industrial sectors. The growing scarcity of public sector resources underlined the necessity for stringent review of expenditure priorities for government.

International pressure also plays a crucial role on trade liberalization in 1985 in India. During first half of 1980 Indian economy suffered from high price rate of oil, inflation, and total exports showed a marginal decline. To manage this crisis government needed the loan from the IMF. But the IMF put conditionality for a loan on the issues of the exchange rate, liberalization, and government expenditure (Soni 2014, 22-23).

In the case of political front, there are several reasons to fail the economic policy. First, political instability: in 1980 general election, Indira Gandhi returns to power and in 1984 the center-state conflict started growing on the north part of Indian state called Punjab. There were some communal problems in some states, particularly the separatist (and partly terrorist) movement in Punjab. Indira Gandhi government ordered the Indian army to kill the terrorist which was inside the Sikh Golden Temple in Punjab. In revenge, she was assassinated by one of her own bodyguards on the 31st October 1984. Second, government's Ideology, after assignation of Prime Minister Indira Gandhi, her son Rajiv Gandhi became Prime Minister. Before entering politics Rajiv Gandhi was had interest on modern technology and electronics and he was an airline pilot

(Sharma 2009, 128-30). Rajiv Gandhi government faced many challenges like economic crisis as well as international Pressure. Rajiv Gandhi had a modern and managerial style and wanted to change the bad economic policy of India which was a baggage of the past.

These all political economic situation forced Rajiv Gandhi new government to move fast and implement some liberalization policy. On 21st November 1985, Rajiv Gandhi government finance minister V.P. Singh presented a finance budget for liberalization policies on structural adjustment (Table 3-7). The opposition party in government (Jan Sangh) and socialist party opposed the liberalization policy but government implemented the liberalization policy.

Rajiv Gandhi Government started liberalization policy through structural adjustment policies with the reduction in direct taxation, and also introduced a number of significant measures of liberalization of industrial policy. Around 30 industries and 82 pharmaceutical products were de-licensed by the Rajiv Gandhi government. As Mukherji (2009, 10-11) describes Rajiv Gandhi as the Prime Minister, with whom the time of technological development started. He also started to reduce the government’s control over industrial activity.

Rajiv Gandhi government economic liberalization measures have been seen in following steps: first, is industrial deregulation, licensing were requirements for entry and expansion of capacity. Second is the import deregulation, under import deregulation there were restrictions on imports of capital goods which encouraged technological modernization in India (Joshi and Little 1994, 85-86). Third, there were improvements of export incentives and taxation.[22]

2) Reversal of 1985 Trade Liberalization Policy in India

1985 Rajiv Gandhi liberalization policies were not sustained and on 1987 V.P. Singh government reversed few liberalization policies and most of liberalization policies on halt. What are the reasons behind the reversal of liberalization policies which were taken place in 1985? There are several reasons which forced V.P. Singh government to reverse few policies and some liberalization policies on halt of 1985 in 1987 (Table 3-8).

Table 3-8 Reversal of 1985 Trade Liberalization Policy in India

Date		20th March 1987
Initiator		Morarji Desai (Finance Minister)
Causes	Economic crisis	Price rise
	Political ideology of P.M.	Ideological differences on coalition partners in government
	Type of govt.	Coalition government
	The political Opposition	Supported a reversal of 1985 trade liberalization policy

[22] Under taxation rates of direct taxation were lowered to increase incentives and reduce evasion. The import tariff structure was somewhat simplified but the average tariff rate went up.

	Others	Instability in coalition government, India's organized capital and big business and small business were seeking protection from international market

In economic front, the food prices had risen very moderately due to monsoon failures. These resulted into agricultural output, which fell less than in price rise increase. The imports of edible oils and pulses were increased ((Joshi and Little 1994, 65-66). And India's organized capital, big business, and small business were seeking protection from the international market.

In the political front, instability in coalition government, Prime Ministers ideology forced a government to reverse the liberalization policy. First, instability in a coalition government, Rajiv Gandhi government was brought into question by an allegation of corruption relating the purchase of Swedish fighter plan. Indian government finance minister Vishwanath Pratap Singh resigned over this issue. Rajiv Gandhi government lost confidence and was unable to act decisively. The seven opposition parties formed the National Front with Vishwanath Pratap Singh as convener. The Prime Minister Rajiv Gandhi dissolved parliament in October and called for elections, hoping to get a new and convincing mandate. But the popularity of the government was very low (Joshi and Little 1994, 67-68). Rajiv Gandhi was succeeded by Prime Minister Vishwanath Pratap Singh.

Singh formed a minority coalition government on with parliamentary support from the right-wing party BJP and the Communists party of India (Mukherji 2009, 10). A veteran politician Chandra Shekhar broke away from Vishwanath Pratap Singh's National Front and formed a minority government with the support of Rajiv Gandhi and Congress (Mukherji 2009, 10).

Second, Singh's government ideology also plays a crucial role in reversal of 1985 trade liberalization policy in India. As Singh's government, People's Party (Janata Dal) was formed with ambitious leaders of different ideologies, with the sole aim of "anti-congress". The government depended on both Left and BJP of opposite ideologies. Besides that, Singh also had to face an internal crisis within the party. All these political and economic factors forced Singh government to reverse the Rajiv Gandhi's 1985 liberalization policy.

From 1947 to 1990, four times (1951, 1966, 1976 and 1985) Indian government tried to liberalize policy but all four times government could not maintain its liberalization policy and they reversed liberalization policy. This chapter shows that economic crisis, international pressure from the IMF or the World Bank and single party government were the main causes of trade liberalization policy in India before 1991. However, the Prime Minister socialist ideology, political opposition of government and coalition government were the main causes for reversal of liberalization policy in India.

CHAPTER 4

Trade Policy in India: Post-Trade Reform Period (1991~2014)

The previous chapter analyzed the trade policy in India: pre-reform period from 1947 to 1990 and found out that four times (1951, 1966, 1976 and 1985) Indian government tried to liberalize trade policy. But because of the prime minister socialist ideology, political opposition and coalition government, all four times government reversed liberalization policy.

This part of chapter analyzes the trade policy in India since 1991. India's trade and economic growth has accelerated in recent years and its share of world trade has expanded. India is the home of one of the largest youth populations which provide fuel for the economic development. However, positive growth faces many daunting challenges and policy decision to maintain a high growth rate (Panagariya 2004, 11-12).

1. The Initiation of Liberal Trade Policy (1991~2011)

1) Fifth Trade Reform

On 1951, Indian government liberalizes trade policy. What is the reason for 1991 liberalization policy? There are several economic and political factors which forced the Indian government to liberalize its trade policy in 1991 (Table 4-1).

Table 4-1 Fifth Liberalization of Trade Policy in India

Date		24^{th} July 1991
Initiator		Manmohan Singh (Minister of Finance)
Contest		A.B. Vajpai, L. K. Advani (leaders opposition party), Chandra Shekhar (Peoples Party), and Communist leader like Sitaram Yachori
Causes	Economic crisis	Balance-of-payments crisis and foreign exchange crisis
	International pressure (IMF/WB)	Pressure from the IMF for trade liberalization policy
	The political ideology of P.M.	The progressive ideology of P.M. Rao and finance minister Singh
	Type of govt.	Single party govt.
	Others	The collapse of the Soviet economy
Economic Reform		Deregulation of domestic industry, Reform of trade regime, Reform of domestic interest rates, public enterprise reform, and Devaluation of Indian rupee

Indian economy faced with rising inflation and a balance of payment crisis. The beginning of the 1990s brought its dramatic political-economic changes in India. "India's fiscal deficit has been increased rapidly to over 8 % of GDP, inflation in 1991 was nearly 14%, and its external debt had also increased from \$18 billion in 1980 to nearly \$72 billion by 1991 (Aggarwal and Mukherji 2008, 221-22)." High prices of oil also harmed Indian trade. World oil prices were doubled in the beginning of the 1980s which resulted in a huge deficit in India's current account which had so far bordered balance. As Joshi and Little highlight that an inappropriate exchange rate during 1982-1985 led to complete stagnation of exports. The inappropriate exchange rate in 1980s caused persistent current account deficits in India (Joshi and Little 1994, 14). The Indian economy grew rapidly in the 1980s, but due to unstable fiscal conditions 1980s, growth was not sustained. Inflation surged to an all-time high by the end of the 1980s. The balance of payments position had reached a point of near collapse in June 1991 (Joshi and Little 1994, 15).

There is some evidence which suggest that, the adoption of the new economic and trade policy was done under international pressure. As Bahduri and Nayyar (1996) claim that, the foreign exchange crisis forced the Indian government to approach the IMF to take conditional lending. To improve and meet its import obligations, the Indian Government had tried all sources of funding. For obtaining foreign exchange, the Indian government had even shipped gold to the Bank of England (BoE) and the Union Bank of Switzerland (UBS). Commercial banks had decided to stop lending to India (Mukherji 2009, 12-13). Non-resident Indians began withdrawing their savings. The deposits of these NRIs could have been used for meeting foreign exchange obligations. This situation led Indian government into the bad condition and option for Indian government was either to default on its import payments or to seek conditional resources from the IMF (Mukherji 2009, 9-10). A default would have affected India's substantial goods imports. For Indian government, it would have been hard to manage the economy without essential imports (Bahduri and Nayyar 1996). And on 12 November 1991, World Bank (Lewis T. Preston, President of World Bank) proposed Structural Adjustment Loan/Credit (SAL/SAC). As Goyal *(*1996, 4-5) highlight the main areas covered in World Bank proposal is:

i) Indian government should promote foreign direct investment and government has to deregulate domestic industry;

ii) Indian government should liberalize trade regime in India;

iii) Indian government should reform the domestic interest rates with measures to strengthen capital markets and institutions in India; and

iv) Indian government took some initiation on public enterprise reform.

The collapse of the Soviet economy and single party government are the factors which forced the Indian government to liberalize trade policy in 1991 in India. First, the collapse of the Soviet economy (India's largest trading partner), and a single party government had the main factor behind 1991 liberalization policy. The collapse of the Soviet Union had a profound impact on India trade policy. Some scholars argue that collapse of the Soviet Union paved the way for a reinvention of the country, the socialist economy to a more dynamic capitalist economy. Early, foreign policy was seen as a suspicion of America but after that, it is defined by shared interests and even mutual affection. As Kapur (2009) observed in this regards, this development in some way cleared the way for the country to reinvent itself, from where it was a repressed socialist economy to a more vibrant capitalist one; from a country suspecting America on its intention while framing its foreign policy to a country which keeps in mind the common interest and affection; and from a country that loathe individualism, consumerism and aspiration to a country that embraces such qualities with open arms (Kapur 2009).

As Aggarwal and Mukherji (2008) highlight that India chooses Soviet-style economy because of the geopolitics of the Cold War which further complicated on Indo-Pakistani relations. During Cold war, U.S. supported Pakistan and there were close ties with China. India also needed a strong partner to make its position strong in Asia and the Soviet Union was a good option for India. Aggarwal and Mukherji claim that India could not have won the 1971 war without the Soviet Union support. India signed a Treaty for economic cooperation as well as for friendship with the Soviet Union that brought the security concerns in Asia for India. Soviet also benefited by getting a reliable partner in the Asia. After the cold war, India and the Soviet Union were very close to each other on the political-economic front. At the same time, this was a major blow to India's stature seen as a nonaligned country. Pakistan had maintained close ties with the U.S. during the Cold War. Pakistan became a frontline state in U.S and it benefited enormously from U.S. aid. Pakistan was supporting the United States of America against the Soviets in Afghanistan.[23]

This all forced the Indian government to think about liberalization policy in India. And in 1991 congress party won the election and Narasimha Rao[24] became a Prime Minister in a minority government. The Narasimha Rao tried to improve the economic policies which changed the India status from import substitution toward export promotion. Rao government appointed Dr. Manmohan Singh[25] on government as a Finance Minister, and Dr. Singh had

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[23] During Cold War American President Jimmy Carter was trying to discipline Pakistan toward more democratic governance when the Soviet Union invaded in Afghanistan. Pakistan got substantial military and financial aid from America in return for Pakistan's Pakistan's support for the United States' fight against the Soviet-backed regime in Afghanistan.

[24] In 1991 Congress could not get a full majority but they form a government with the support of some regional and small parties and P.V. Narasimha Rao become Prime Minister of India.

[25] Dr. Manmohan Singh is a politician and economist who become Prime Minister of India in 2004 (14th Prime Minister of India) and served as the Prime Minister until 2014. In 1991, when India was facing a severe economic crisis, newly elected Prime Minister P. V. Narasimha Rao surprisingly inducted

shifted Indian economy away from a highly protective to a more liberal, the government surprised critics and supporters alike" (Aggarwal and Mukherji 2008, 215). On the 24th of July 1991, Manmohan Singh presented the finance budget with economic reform. The main objectives of Indian government to launch new–economic policy to plunge its economy into the arena of globalization and give it a new thrust on market orientation. The Indian government also tried hard to bring down the rate of inflation and remove imbalances in payment. During the 1990s, India builds sufficient foreign exchange reserves and intends to move towards higher economic growth rate. Without many restrictions, India wanted to permit the international flow in various sectors of goods; capital, services, technology and human resources (Ishvarsinh 2004, 2-3). The opposition reacted strongly to liberalization policy and, describing finance minister Manmohan Singh's ideas as "far too radical for what the compulsions of democratic politics would allow (Jenkins 1999, 12).

The BJP (main opposition party in parliament in 1991) had opposed the Congress Government's policies of external liberalization in the early 1990s. The Communists have passionately opposed

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a Manmohan Singh into his cabinet as Finance Minister. Following the advice of International Monetary Fund in 1991, Singh as Finance Minister, freed India from the Licence Raj, the source of slow economic growth and corruption in the Indian economy for decades. He liberalized the Indian economy, allowing it to speed up development dramatically.

liberalization policies, and termed them as "Indian government surrender to the IMF" (Roy 2009). Chandra Shekhar[26] and other opposition leaders opposed to foreign and especially multinational investment and to economic liberalization. "India is too large a country to experience genuine development with outside aid," Chandra Shekhar said. He argued that officials should seek India as "self-reliant, instead of pursuing an illusion sold with promises of foreign aid and easy finance" (Hazarika 1990).

Indian government under Prime Minister Rao and finance minister Singh has credentials as both an economist and a practitioner of strong economic policymaking which placed India into high economic growth with the trade reforms. There were many steps taken for negotiation and adjustment by the Indian government for trade reform. The Indian government negotiated with International Monetary Fund (IMF) in October 1991 for $ 2.3 billion over a 20-month period. It also took structural adjustment loan with the World Bank of $ 500 million and a Hydrocarbon Sector Loan with the African Development Bank (ADB) for $ 250 million (Mathur 2006, 311). In order to integrate the Indian economy more closely with the world economy, Indian government started wide-ranging trade liberalization and economic deregulation (World Trade Organization 1998).

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[26] Chandra Shekhar, the former prime minister of India and former president of the Janata Party (Peoples party).

To sustain economic growth in the early 1990s, India accelerated the country transition to a globally-oriented, vibrant economy to sustain its economic growth. India concentrated on the access of the essential raw materials, intermediates, components, consumer goods and capital goods for high production. India has developed the technological strength and efficiency of for better and prosperous agriculture, industry and as well as services. These are some primary actions taken by the Indian government to improve its economy. In the early 1990s, the Indian government has used major trade policy to start a paradigm shift in Indian economic development.

The new policy (liberal policy) provided a conducive and free environment for liberal trade and various kinds of policy measures helped India to achieve the high export growth rates (in 1990-1991 Indian export was 10248.8 million US$ and in 2011-2012, (Appendix-2, 3) Indian export increased up to 23473.6 million US$. The reforms defined a strong and new relationship between the state and the market in India. Because of the reform policy the Industrial licensing was almost abolished between 1991 and 1993 (Ministry of External Affairs 2015). Import licensing was also abolished with respect to imports in many sectors including machinery, equipment, and manufactured intermediate products.

The Indian trade policy focused mostly on reforms in the field of inputs and capital goods for an industry which encouraged export-oriented and domestic growth. However, most of the imports of consumer goods remained regulated, which hampered the trade labialization. There was almost no change in the structure and export incentives and as well as subsidies policy. However, foreign investment was still very low and there were administrative barriers which hampered the growth rate.

2. Moving Toward More Liberal Trade Reform Policy (2011~2014)

India has continued to benefit from the process of trade liberalization as a result of the structural reform which was initiated in the early 1990s. The liberalization contributed to the higher GDP growth rates and there was a resilience of the Indian economy to the global financial crisis. India also started responding the global crisis by implementing various steps consisting of increased spending, lower excise and customs duties, and support measures. India government also shifted towards lower tariffs, the simple average MFN tariff rate declined to 12% in 2010/11, from 15.1% in 2006/07 (World Trade Organization 1998). Since 2000, Indian trade policy faced two world economic recession (2008, 2015), which has had a negative impact on Indian economy. Coalition politics in India had also some negative impact on liberalization policy in India.

1) Sixth Trade Reform in India

In 2012 Indian government liberalizes trade policy. What is the reason for 2012 liberalization policy? There are several economic and political factors which forced the Indian government to liberalize its trade policy in 2012 (Table 4-2).

Table 4-2 Sixth Liberalization of Trade Policy Reform in India

Date		14th September 2012
Initiator		P. Chidambaram (Finance Minister of India)
Contest		Sushma Swaraj (main opposition leader), Mulayam Singh Yadav, and Coalition partners from government like Trinamool Congress (TMC)
Causes	Economic crisis	The economic crisis of US and the financial turmoil in the *Euro zone* in 2012 affected Indian economy
	International pressure (IMF/WB)	Pressure from multinational retails
	The political ideology of P.M.	Progressive
	Type of govt.	Coalition Government

	Others	Government's coalition partners like Mamta Banerjee opposed the liberalization policy
Economic Reform		100% FDI on single-brand retail and 51% FDI on multi-brand retail

*FDI- Foreign Direct Investment

The economic crisis of US and the financial turmoil in the *Euro zone* in 2012 has impacted Indian economy. The price of oil imports increased around 22 % (compound annual growth rate) and that has a negative impact on trade deficit between 2009~2012. And trade deficit (compound annual growth rate) has decreased by 10 % between 2009~2012 (Kumar 2013). As Walia (2012, 33-34) argues the global crisis affected the health of Indian economy through trade flows, export & import, exchange rates, and financial markets. He also argues the overall effect of the global economic crisis on India's external sector could be well analyzed through the balance of payments position of the economy. "*And the overall balance of payments has been improving since 2005-06. But during 2008~10, the overall balance turned negative i.e., 20080 US $ million showing that global financial crisis severely hit the flow of trade in India*" (Walia 2012, 34-35).

India faced international pressure from multinational retail giants like Wal-Mart and foreign investors lobbying groups, they forced the Indian government to liberalize retail sector. As international Business Times writer Sreeja (2012) argues "*India's* *retail sector, which is one of the fastest-growing in the world, is under immense pressure to allow the Foreign Direct Investment (FDI). With multinational retail giants like Wal-Mart and CarreFour and foreign investors lobbying the government to throw open the retail sector, the government has made several futile attempts in the past two years to allow FDI in retail*" (Walia 2012, 35). In the political front, the prime minister of India, Dr. Manmohan Singh was a progressive prime minister. An economist called him as a father of Indian reform. Dr. Singh as a finance minister in Narasimha Rao's government started the successful liberalization policy with Prime Minister Rao in 1991. Before becoming a prime minister, he was an accomplished economist and he was the governor of reserve Bank of India from 1982-85 years before he got introduced into politics and become finance minister in Rao government in 1991. In 2004 he became Prime Minister in India and in 2012 his liberal ideology influences him to take an initiative to liberalize Indian retail sector with liberal finance minister P. Chidambaram on united progressive alliance (UPA).

All of these economic, as well as political factors, forced the Indian government to liberalize, and on 14th September 2012, Indian coalition government took an initiative to liberalize Indian retail sector. The opposition parties' leader Sushma Swaraj (main opposition leader), and even governments coalition partners Trinamool Congress

(TMC) leader Mamta Banerjee strongly opposed the liberalization policy on the retail sector. Other leaders from regional parties Samajwadi Party led by Mulayam Singh Yadav and Bahujan Samaj Party led by Mayawati also opposed the liberalization of FDI in the retail sector (Srivastava 2013).

In 2012, India government liberalized trade policy and allowed foreign direct investment in retail sector. First Indian government allowed 100% FDI in single-brand stores with some conditions. The government imposed the requirement that the single brand retailer would have to buy 30 % of its goods from Indian domestic market.

Second, Indian government allowed 51 % of FDI in multi-brand retail sector. Indian government felt that 100% FDI on a single brand and 51% FDI on multi-brand would be beneficial for Indian farmers and also for Indian consumers. The finance minister of India P. Chidambaram expected that agricultural marketing will benefit with the introduction of new technologies (Garg 2013, 3; Prasad and Singh 2012).

Indian government took a decision regarding trade policy reform in India to make India friendly for FDI. As one business report describes "*the decisions of reform in a retail sector for international companies, especially the supermarkets, were able to increase their presence in the multi-brand retail sector of India. However, they were not allowed to own more than 51 percent stakes in these* *establishments (*India Business 2014*)*. However in 2013, once again Indian government reversed the liberalization policy in India which was initiated in 2012 by the Indian government.

2) Reversal of 2012 Trade Liberalization Policy in India

In 2013, Indian government reversed the liberalization policy of 2012. Now the question arises. What are the reasons behind the reversal of 2012 liberalization policy? There are several reasons which forced a government to reverse the liberalization policy of 2012 (Table 4-3).

Table 4-3 Reversal of 2012Trade Liberalization Policy in India

<table>
<tr><td colspan="2">Date</td><td>2013</td></tr>
<tr><td colspan="2">Initiator</td><td>P. Chidambaram (Finance Minister of India)</td></tr>
<tr><td rowspan="5">Causes</td><td>Economic crisis</td><td>-</td></tr>
<tr><td>The political ideology of P.M.</td><td>Progressive</td></tr>
<tr><td>Type of govt.</td><td>Coalition government</td></tr>
<tr><td>Political Opposition</td><td>Strong opposition to FDI in retail sectors</td></tr>
<tr><td>Others</td><td>Government’s coalition partners opposed the FDI in retail sector</td></tr>
</table>

Main opposition party (BJP) leader Sushma Swaraj opposed the trade liberalization policy for retail sectors and argued, "*Trade liberalization in retail sector policy would hurt small retailers*" and "*farmers are forced to throw their potatoes away while McDonald's imports the potatoes it uses*" (Madhvani 2011).

The Hindu right wing, led by Bharatiya Janata Party and collectively known as the Sangh Parivar,[27] also doubts globalization. Its sustenance comes from identity politics, the impact of which is diluted by the opening up of the cultural mind-space to foreign influences. They are preoccupied with the notion that if people are busy chasing prosperity and gaining Western liberal values, they will naturally have less time to focus on "the Hindu identity," and suchlike (Verma 2005).

Political parties started the campaign saying "this is a fight against the government (United Progressive Alliance's [UPA])[28] liberalization on retail sector decision and it is the anti-people policy of the government that we are opposing". A leader of one of the important political parties of India, JD (U), and National Democratic

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[27] The Sangh Parivar is a family of Hindu religion nationalist organization.

[28] The United Progressive Alliance (UPA) is a congress led coalition government, which was in power between 2004 -2014. In 2004 UPA coalition governments has 15 coalition partners and in 2009, UPA coalition government has 22 coalition partners.

Alliance (NDA) convener Sharad Yadav blamed the government for its failure on the economic front. Further, Sharad Yadav adds that "Indian market is expanding for years and we are not opposed to the expansion of the market. Now, to revive the market, the government is punishing people through liberalization on retail sector decision. It is taxing common man by raising rail fares". Then he goes on claiming that "Retail shops are the second largest employment generating business in the country and liberalizing retail sector will create unemployment in the country" (Bhattacharyya 2012, Pal 2013; PTI 2013).

The Indian socialist 'Left', a natural opponent of free-market views, believes that 'free markets are the problem and not the solution'. India's communist parties have opposed trade liberalization and prevented privatization of public-sector units.

In 2012, many coalition partners, like Mamta Banerjee from Trinamool Congress (TMC), and Samajwadi Party and Bahujan Samaj Party leaders like Mulayam Singh Yadav and Mayawati, opposed the liberalization policy. The Samajwadi leader Mulayam Singh Yadav,[29] who provides crucial external support to the UPA government, has opposed the trade liberalization on retail; their argument is that it will

[29] Mulayam Singh Yadav is a president of Samajwadi party, and his party (Samajwadi party) was giving outside support to the Congress lead United Progressive Alliance (UPA) government in the center during 2009-2013.

hurt the interests of Indian farmers. Indian government coalition partners as well as Communist Party of India (CPI), Bharatiya Janata Party (BJP), and Janata Dal (United) [JD (U), came together (Bhowmick 2012). And they launched a nationwide campaign against trade liberalization in the retail sector and sought support from the people to make the movement against the government's 'anti-people policy' a success.

The Prime Minister of India, Dr. Manmohan Singh as well as finance minister P. Chidambaram who had a more progressive political ideology, both wanted to continue the liberalization policy on retail sector but because of the opposition parties and coalition partners from government objection on liberalization policy on retail government reversed the liberalization policy in 2013.

This chapter shows that the collapse of the Soviet economy, economic crisis, international pressure from the IMF and the World Bank, and single party government are the main causes of 1991 trade liberalization policy in India. This chapter also shows the economic crisis, and international pressures (IMF/WB) are the main causes of trade liberalization policy on the retail sector in India in 2012. However, countries political opposition of government and coalition partners from the government are the main causes for reversal of liberalization policy in India.

CHAPTER 5

Federalism and Protectionist Trade Policy in India

The previous chapter analyses the trade policy in India since 1991 and finds out that the collapse of the Soviet economy, economic crisis, international pressure from the IMF and the World Bank, and single party government are the main causes of 1991 trade liberalization policy in India. Indian government tries to liberalize trade policy. But because of coalition partners from government and political opposition, the government reversed liberalization policy in 2013.

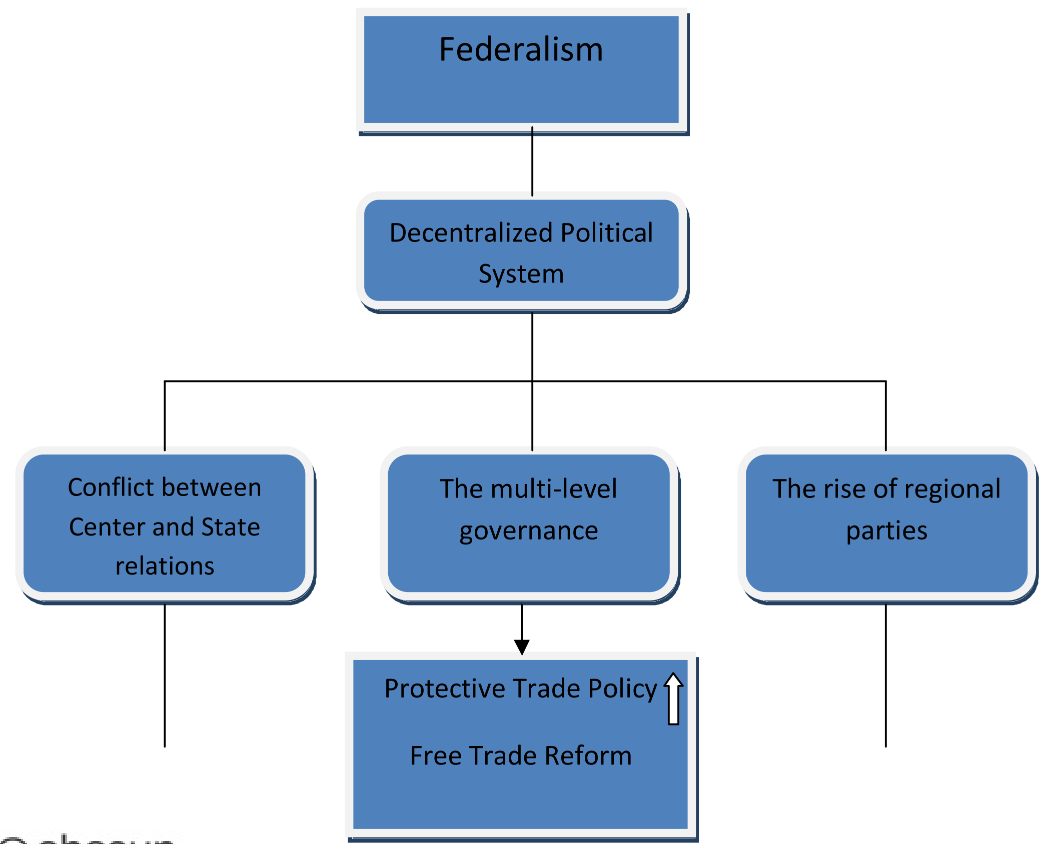
This part of the chapter explores the link between federalism and the free trade policy reform in India. The main purpose of the chapter is to link the nexus between federalism and free trade policy reform and find out whether or not federal political systems hinder the free trade policy reform in India or not.

This chapter tries to identify the factors through which federalism could impact free trade policy reform. And also tries to analyze whether or not federalism affects free trade policies in India. This chapter argues that free trade policy reform on India's federal institutions has been driven by a decentralized system as well as center-state political competition and these factors delay the free trade policy reform in India. One characteristic of India's democratic political system is the policy-making power, and that policy making power between national government and regional government could delay the process of free trade policy reform. Indian federal system (federal diversity in India) could have a negative impact on countries trade liberalization policies. This chapter used the examples of decentralization to policy making process regarding free trade policy reform in India.

1. Decentralized Political System in India

India had a federal system with 29 states and 7 federal states. In federalism, the decentralized political system may hinder free trade policy by means of several ways like the conflict between center and state, multi-level governance and multiparty government, and the rise of regional parties.

Figure 5-1 Structure of Federalism and Protective Trade Policy/ Free Trade Policy



1) Center-State Relations

In a decentralized system, there is a collective action problem between center and state. Federalism is an institutional arrangement that could create both economic and political incentives for regional and central officials to conflict over free trade policy reforms (Wibbels 2005, 22-23). There are two approaches regarding federalism and international trade. First is centralizing school, and the school devoted to multi-level governance. From the perspective of the centralizing approach by Kenneth Clinton, he is one of the leading theoreticians of federalism an allowance of the monopoly of foreign affairs is a ‘minimum power’ of all central governments (Wheare 1967, 116-17). Wheare (1967) mentioned the negative consequences of an unbundling of the central control over foreign affairs. They also mentioned that there is a serious negative effect on the national interest and as well as for the functioning of the international system.

According to Paquin (2009, 175), foreign affairs power centralization is important for international law. They give the reason that because of a centralized political system is one of the important conditions for states to be able to play the role which is assigned in international law and practice (Wibbels 2005, 12-33). In essence, without the existence of a central government that has plenary authority on its territory in relation to foreign affairs and the ability to participate in international relations and to enforce international obligations in the domestic order, inter-state relations could only be seriously compromised (Shaw 2008, 132-33). If the power of co-decision regarding treaty-making is granted, this would risk paralyzing a state's foreign affairs, because every player would have a veto, resulting in harm to the state's image in the international arena (Scharpf 1988).

2) The Multi-level Governance and Multi-party Government

In a federal system, countries often differ in the number of levels of governance and the number of political parties in government. In some federal systems, country has two level governments (center level, state level), and others have 3 to 4 levels governance. Some federal systems have single-party government while others have coalition governments of different size. However in the case of Indian federalism, there is multilevel government system (central government, 29 states and seven Union Territories (UTs)), the latter including the National Capital Territory (NCT) of Delhi. There is an executive role for Union Territories which have elected legislatures with Chief Ministers. The other Union Territories are governed directly where the governance appointed by the center government. There are directly elected parliamentary form of governments at the national and state level, directly elected government bodies at various local levels (Singh and Srinivasan 2006) with the multi-parties government, which has an important impact on the free trade policymaking process. According to Ehrlich (2007) the opposition parties (the party which is not in government) have no role in setting current policy or any policy change, however, political parties in government have a big role in policy setting.

The increasing number of multi-level governance and multi-party governments increased the number of relevant policymakers, creating more lobbying opportunities leading to more protective trade policy in India.

3) Rise of Regional Parties

In India the decline of the central parties like congress party became apparent. The rise of many smaller and regional parties or state parties to prominence in national level politics has started to conflict between the central government and state government (Palshikar 2003, 331-32). The question is the following. How does this rise of regional party impact Indian trade policy?

In Indian federal system, the policy making power is in the hands of the central government, but the regional policies like tax and other regional barriers on trade is on the hand of state government. And due to the fact that the same political party "Congress" ruled the center and states, it did not create serious problems or conflicts in the early years of the functioning of the constitution. Any potential inter-state and center-state conflicts were easily resolved within the party. However, conflicts became open with the congress party losing power in some of the states. In 1961, Jawaharlal Nehru's government dismissed the communist party led Kerala state government. Periodic attempts at re-examining center-state relations. There was no longer the norm at the center with single party governments. The rise of regional parties in the states brings the dynamic change in Indian political scenario and one may need to rethink core features of the constitution (Singh and Srinivasan 2006).

The existence of regional parties is nothing new at the state level. However, entry of regional parties into national level politics was a new phenomenon. In 1977, there was an entry of Akali Dal and DMK with Janata party government at the center. The Janata Party had a clear majority (295 seats) on its own but regional party's entry at the center opened a new political relationship with regional parties and the national party. There were 51 members belonging to various regional parties in 1977 and it was the first time in the history of Indian politics that regional parties shared power at the national level. However, in 1980 the centre-regional political alliance glory was lost when the Congress party returned to power (Singh and Srinivasan 2006, 6).

But in 1984, regional parties increased their share in Lok Sabha (Lower House or House of the People).[30] There were 76 members belonging to different regional parties in the eighth Lower House. The rise of Telugu Desam in Andhra and Asom Gana Parishad in Assam were the main factors responsible for this performance of the regional parties. However, with the Congress having 415 seats in Lower House, the role of regional parties was bound to be insignificant in national politics (Palshikar 2003, 326-27).

The rise of these regional parties has a crucial role in the free trade policy-making the process at the national level (Palshikar 2003, 324-25). Since 1996 regional parties have become indispensable in the formation of government at the national level and they have a big impact on trade policy process in India (Palshikar 2003, 330). They

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[30] The Lok-Sabha is called 'Lower House' or 'the House of the People', in parliament. The Lok-Sabha represents people of India. It has 552 members (530 members are elected from 29 states and 20 members are elected from UT (7 Union Territories of India) and 2 members are nominated by President of India).

have an impact on trade policy through ideological positions, social bases, regional level and other kind of region problems.

2. Federalism and Trade Protection Policy in India

Unlike other major federations in the world, Indian federal system is tilted towards the union because primacy and supremacy were vested in the union. This led to the statement presented by few commentators that there is "unionized federation" in India. India has 29 states, seven “union territories”. Out of seven union territories, two union territories, Delhi and Pondicherry have their own elected legislatures. However, remaining union territories are governed directly by appointees of the center (Rao and Singh 2001).

The chief ministers and all elected legislatures have an executive role. The constitutional assignment gives certain statutory powers to these states that make India a federal system. The distribution of powers between the Union and States are undemocratically divided as the Union and some parts are given more weight than others in the scheme of things. The central order is more visible than the state image (Misra *2012, 3-4)*.

The primary expression of statutory constitutional authority in India comes through directly elected parliamentary government at regional and central level. There are several important essences of federalism that are based on the representative democratic politics, a role of political parties with the interaction between central and local government. This interaction between central and local government is the crucial aspect of federal structures. To explain in the bigger picture, consider the extreme case where government powers are notionally decentralized and all residuary powers assigned to the state level, but a single, rigidly hierarchical political party controls the national and all state governments (Rao and Singh 2001, 12-13). Before 1970, all states controlled by a single, rigidly hierarchical political party like Indian National congress. In such circumstances, issues regarding policy between center government and state government relations were often played out within the ranks of the congress party (Rao and Singh 2001, 15-16).

The one-party dominant era could consume the central dominance and idea of "cooperative federalism" was generated. But the electoral dynamics of the country and the new political compulsions appeared after the fourth general elections of 1967 exposed the tension areas of the Indian federal system. The Dravidian Progress Federation (DMK) [31] came to power on state government in Tamil Nadu; the communist party came in power on

[31] Dravida Munnetra Kazhagam (DMK) is a Dravidian Progress Federation, which is a regional political party in the states of Tamil Nadu and Pondicherry.

state government in West Bengal. However, these could not disturb the political balance till the Congress had the majority and there was a lack of understanding among the non-Congress Opposition Parties. But after the 1980s the rise of regional parties made little difficult for central government for making trade policy.

The first non-congress government in the capital (New Delhi) attempted to have a re-look at the federal system but it could not achieve success. During the Janata Party (Peoples Party) emerging rule at the center the rise of new regional parties and the existing tirade against central dominance could experience the demand for autonomy by those states like West Bengal, Tamil Nadu, Punjab, J & K etc. Again, the political scenario in the country was changed in 1989 (Misra *2012, 4-5)*. There was a basic difference between and post-1984. The difference was combined opposition and combination of opposite parties. The other character was non-Congress Party government. Misra (2012, 3) argues that new situation gave political advantage to the regional parties and their leaders.

In 1989, the central government's powers have been reduced and the old style was gone when the chief ministers were chosen by the prime minister. A situation arose since 1989 for about two decades when opinion and the role of chief ministers became important in the process of selecting of prime ministers. The congress party and BJP were in favors of a strong and the Left parties preferred removal of all injustice and discrimination against the states (Misra *2012, 5)*.

Before 1990 Indian trade policy was under License Raj (Permit Raj system), where any company or people need approval from the centralized or regional government for importing computer or buying anything from other countries, even to start small business one needs government permit and the permit process was so difficult. Due to "License Raj system", trade policy was very protective. After 1991, the Indian government opened the Indian market and trade policy became more liberal. But compared to the other democratic countries, Indian trade policy is still very protective. India is placed 126th overall for World Bank's trading across borders and 142nd overall in the World Bank's Easy Doing business index even much worse than Malaysia, Sri-Lanka and even autocratic countries like China. This is a reflection of very high and largely unreformed domestic regulatory barriers as well as different kinds of national and regional barriers on free trade.[32]

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[32] India has many un-reformed domestic regulatory barriers, such as regulatory barriers on small-scale industries, unreformed agricultural policies (subsidies, price controls, and other internal trade barriers), and many domestic restrictions on services sectors. India also has high subsidies and price controls policy on the energy sector (Razeen Sally. 2009. "Trade Policy in the BRIICS: A Crisis Stock takes And Looking Ahead." *ECIPE Policy Brief* No.03/2009. Online available at:<http://www.ecipe.org/app/uploads

From the above analysis this chapter shows that in federalism, the decentralized political system in India makes central government and state government agree on free trade policy reform issue. However, because of the conflict between center-state relations, the multi-level governance, the multiparty government and the rise of regional parties, the reform policy becomes delayed and that forces government to keep protective trade policy in India.

CHAPTER 6

Coalition Government and Trade Policy Change in India

The previous chapter analyzes the nexus between federalism and the free trade policy reform in India and finds out that in federalism, the conflict between center-state, the multi-level governance, the multiparty government, and the rise of regional parties are the main factors of decentralized system which delays the process of free trade policy reform in India.

This part of the chapter explores the link between the coalition government and trade policy change in India. This chapter used veto

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/2014/12/trade-policy-in-the-briics-a-crisis-stocktake-and-looking-ahead.pdf> (Accessed on 2015/5/15)).

players theory to analyze the process of trade policy making in India. In veto players theories, the number of coalition partners and the ideology of coalition partners are important for policy change in India. The percentage of tariff rates will be taken into account to understand how Indian coalition form of government affects the trade growth in India.

According to Bonoli (2001, 255-56) the coalition government has more veto players which increase the difficulty of policy reform. Political scholars, like Tsebelis (2000, 443-44) meanwhile, emphasize the effects of veto players and argue that large numbers of such veto players similarly hinder efforts at policy reform. This study uses these arguments on Indian trade policy and analyses how these veto players (coalition partners) impact on trade policy change in India

Indian coalition politics (Indian political system) is very complex. The diverse nature of political parties and diverse nature of pressure groups make it difficult for the government to change trade policy. The coalition government with a large number of coalition partners and with large ideological differences amongst coalition partners may delay the process of trade policy change in India. These important factors will be taken into account to define the relationship between coalition government and trade policy changes in India.

Veto player is the order to change policies or veto player could be defined as a certain number of individual or collective actors who have to agree to the proposed change. Veto players are specified in a country by the constitution, political system and different bodies of government.

As Tsebelis (2000, 442-43) describes, each and every political party has a configuration of veto players with specific ideological distances among them, and certain cohesion to each other. And all of these characteristics effects on the process of trade policy changes (from protective trade policy to free trade policy).

Mansfield and Milner (2010, 5-6) studies support the argument regarding veto players and they explain that veto players are important factors for free trade policy. They also mentioned that the nature of the coalition type of the government and the number of veto players have an important role in the process of trade policy changes.

Political institutions use veto players in special or specific ways in order to make new policy according to their benefits. Tsebelis (1995, 273-74) added the argument about veto player and argued that veto players have the ability to block or delay the process of trade policy change.

Democratic countries likely to have more veto players than non-democratic countries. Veto players vary considerably among each democracy and democracy nature of government legislature control over decision-making. Sometimes two or more political parties or coalitions control over decision-making. But in the case of India, the coalition government has many political parties with very diverse views in ideology, regionalism, and other various issues.

1. Coalition Government in India

India has had coalition governments at the central government (central government- Indian government) as well as in the states for the last three decades. Coalition governments are not a new phenomenon in India. As Raj (2009) argues "several political parties in the coalition government cooperate to each other and also reduce the dominance of any particular party within that coalition government. The reason behind this arrangement is that there is no party on its own that could achieve a majority in the parliament and form the government" (Raj 2009, 11-12). In other words, the coalition government has more than one party and all coalition partners could influence policy.

The Indian political system has undergone many upheavals and political alternations based on the power of ballot of the common man (Indian peoples). At the central government level, the first coalition government that came to power was the Janata Party (Peoples Party) during 1977-79 (appendix-11). This was the turning point in the history of the coalition government in India. It brought, for the first time, a group of non-congress parties to power at the central government level. *Janata Party* came into being when four major parties the Jan Sangh (Indian nationalist political party), Congress, Bharatiya Lok Dal (Indian Peoples' Party) and Socialist Party came together to contest the election with a common symbol and manifesto. Janata Party obtained 43.17 % votes and captured 295 out of 540 seats (i.e. 55.4%). This electoral victory was an outcome of the unity of opposition leaders and parties. But it could not complete the full term (five years). Failure of the Janata Party coalition was caused by personality clashes, ideological differences, and defections (Lalvani 2005, 22-23). Single-party dominance (congress party) re-appeared during 1980-89. But after the ninth general election of 1989, the situation changed dramatically in favor of coalition governments at the central government level.

In the post-1989 parliamentary election, there were two consecutive unstable, coalition governments – the first was led by "Viswanath Pratap Singh" and second was led by "Chandra Shekhar". Both of such hotchpotches, opportunistic coalition governments did not last long. But in the process of experimentations, they have caused irrevocable harm to the economy of the country – the backbone of Indian economy was damaged. The position became so dire that country had to mortgage gold (20 ton to Union Bank of

Switzerland and 47 ton to the Bank of England) to keep the country's commitments in the international monetary forums (Raj 2009, 22-24).

The national front government has ruled at the center from 1989 to 1990. This was followed by the thirteen-day government of A.B. Vajpayee in May 1996. From June 1996 to April 1997 the *United Front* government under H.D. Dive Gowda assumed office. After the withdrawal of support by *Congress (I)*, the *United Front* government under the leadership of I. K. Gujral remained in office from April 1997 to March 1998. In 1998 BJP (Bharatiya Janata Party) lead minority government with outside support[33] from the regional party "*A. B. Vajpayee*" become prime minister as a caretaker PM until October 1999. In 1999 election BJP lead collation government (National Democratic Alliance) came to power with the support of 24 parties, and again Vajpayee becomes Prime Minister. This BJP lead NDA (National Democratic Alliance) becomes the first coalition government who completed their full term. In the 2004 election the Congress lead UPA (United Progressive Alliance),[34] came in power with the support

[33] While supporting from outside is general without condition and the party does not hold any ministerial positions. The leading party always prefers inside support because there is less chance of the regional party withdrawing.

[34] The United Progressive Alliance (UPA) is a congress led coalition government which was formed after the 2004 general election with the support of centre-left political parties. Initially, United Progressive Alliance got main external support from the Left political parties which has 59

of 16 regional collation parties and Manmohan Singh become prime minister in May 2004. In 2009 election again Congress-led UPA came to power with 10 party's pre-poll alliance and Manmohan Singh continued as a prime minister of India till 2014 with the support of 22 Parties (Lalvani 2005, 135-36). BJP lead NDA (National Democratic Alliance)[35] coalition government came to power with the support of 33 political parties and Narendra Modi become prime minister in May 2014.

2. Coalition Government and its Impact on Free Trade Policy Change in India

This part of the chapter analyzes the relationship between coalition governments partners (a large number of coalition partners with large ideological differences amongst them) and the tariff rate (trade policy change) in India. This study argues that bigger number of parties with large ideological differences in coalition government may delay the process of trade policy change in India. In other words, coalition government which has high numbers of coalition partners

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Members of Parliament and also got external support from several smaller parties. Nevertheless, these parties were not a part of the government.

[35] The National Democratic Alliance (NDA) is a BJP (Bharatiya Janta Party) led coalition government. It could also call the centre-right coalition of political parties in India.

with large ideological differences could delay the process of policy changes in India.

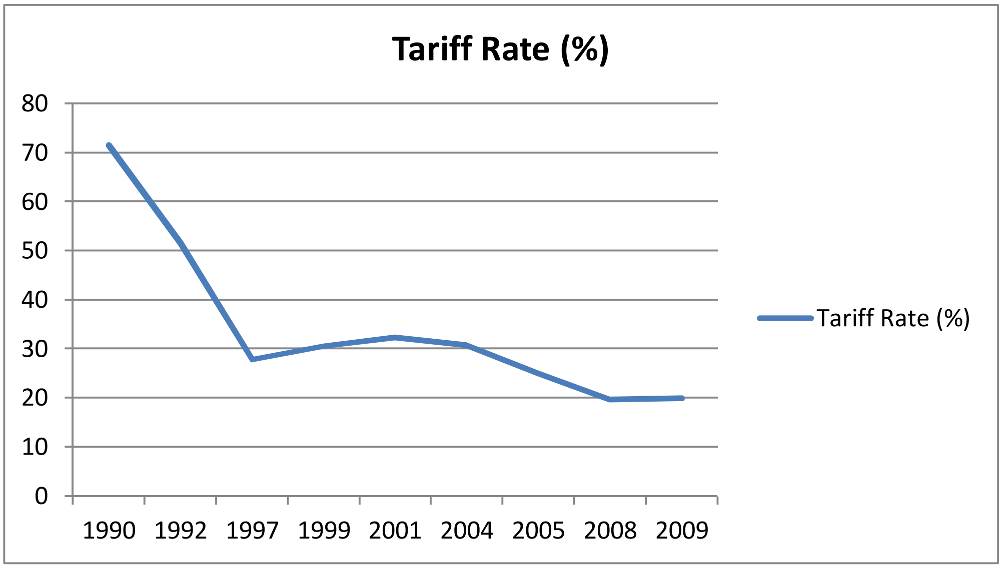
As Tsebelis (2002, 304-05) and Mansfield and Milner (2010, 35-36) defined, in coalition type of government, if the government want to change trade policies (trade policy from protective trade policy to free trade policy) a certain number of an individual or collective coalition partners have to agree to the proposed policy changes. In India, coalition government may be the main reason behind less liberal trade policy (more protective trade policy) than in other democratic countries. From last 20 years (from the 1990s) continuously India has been having a coalition government with large number and very diverse regional, religion, cast, ideology and language based coalition partners. And whenever the government wants to change trade policy (from protective trade to free trade policy), these coalition partners have to agree on trade policy change, and this causes a delay on trade policy reform.

In the case of Indian politics, regional parties have highlighted the tenuous linkages of caste, regional and local proximities to fight elections and garner votes. They assume specific identities based on these affiliations. There are several cases of Shiv Sena (Indian far-right regional political party), Akali Dal (Sikhism religious-centric regional political party), Biju Janata Dal (regional party of Odisha state), Telugu Desam (regional political party), Dravida Munnetra

Kazhagam (Dravidian Progress Federation- linguistic regional party), Arunachal Congress (regional political party), Sikkim Democratic Front (regional political party), Bodoland State Movement Committee, Lok Sakti (regional political party), Himachal Vikas Congress (all who were constituents of the NDA-second coalition formed in 1999 and continuing with it in cabinet till 2004), which have separate identities chiseled out of their promise to give states, regions, linguistic groupings a fair share. They project the need to articulate their specific demands and concerns through their parties and in participation with the BJP at the center trying to wrest developmental gains for their constituencies. And these coalition partners made it very difficult to agree on free trade policy change (from protective trade to free trade policy), and the process of trade reform will become delayed and will hinder the trade.

Earlier scholars like Tsebelis (2002, 101-02) developed veto player theory to compare political systems in terms of their ability for policy change. Tsebelis (2000, 442-43) emphasizes the effects of veto players and argues, that a large number of veto players similarly hinder efforts at policy reform. A coalition government has more veto players, which increases the difficulty for policy changes (Bonoli 2001, 240-41). A political system (government) with a high number of coalition partners or with big ideological differences between coalition partners has high policy instability. High policy instability, in turn, could lead to coalition government instability and instability of coalition government makes it difficult for the government to adopt free trade policy. In short, the number of veto players and their ideology are important for policy change.

Figure: 6-1 Tariff rate in India



Source: World development indicators (2015)

This study used these arguments in Indian case to analyze how coalition partners react on trade policy change (from protective trade policy to free trade policy) in India. The study used the percentage of tariff rates to analyze how Indian coalition government affects the trade policy change in India. The percentage of tariff rate (Figure 6-2) shows that before 1990, India's tariff rates was 71.56%, but between 1991 and 1996 the reduction of tariff rates was very high (tariff rates come down from 71.56% to 27.81%). However, after 1996 the percentage of tariff rates had small fluctuations (sometimes tariff rates were increasing while sometimes it was decreasing) (Figure 6-1). Now a question arises. What is the reason behind tariff rates fluctuations in India? Is there any link between tariff rates and coalition government in India? This study tries to find these questions through a re-examining of the number of coalition partners and their ideology towards trade policy change in India. This part is further divided into two parts: the first part is about political parties' ideology and trade policy preference in India, and, the second part is about the number of coalition partners and trade policy.

1) Political Parties Ideology and Trade Policy.

Empirical studies show the coalition partners (veto players) ideology is important for trade policy change (Tsebelis 1995; 2000;

2002, 444-45; and Immergut 1992). Political party's preferences on policy often refer to a position as being leftist or rightist. It indicates that policy stances could be depicted on a left-right dimension. Thus, political actors judge a policy proposal on how close it is to their most preferred policy (ideal point).

As Tsebelis (2000; 2002) describes "the policy outcome is highly correlated with the Left-Right (Ideological) dimension that dominates the party systems in most western democracies. For policy-issue veto players ideological positions are important..." (Tsebelis 2002, 165). In other words, Western democracies political parties ideology and policy preference are almost similar. In the Indian context, political parties ideology is fixed but policy preference depends on the political parties political situation (political parties in government have different policy preference, but when they are in opposition they change their policy preference) (Table 6-1).

For example, BJP had opposed the congress government trade policy reform in the early 1990s. But when BJP lead NDA government came to power in 1998, BJP tried to promote trade policy reform in India and announced measures that aimed at attracting private foreign investment on a large scale. However, in 2012 when congress led UPA government tried to reform trade policy on retail sectors, once again BJP opposed trade policy reform on retail sectors (Table 6-1).

Table 6-1 Political Parties Policy Preferences on Trade Policy

Fixed Policy Preferences	Changed Policy Preference (in govt.)	Changed Policy Preference (in opposition)
Congress (Pro-Trade)	WBTC (Pro to Anti-T)	BJP (Pro to Anti Trade)
	SP (Pro to Anti-T.)	SHS (Pro to Anti Trade)
BJD (Pro-Trade)	BSP (Pro to Anti-T.)	SAD (Pro to Anti Trade)
CPI (Anti-Trade)	DMK (Pro to Anti-T.)	JD(U) (Pro to Anti Trade)
JMM (Anti-Trade)	RJD (Pro to Anti-T.)	Kerala Congress (Anti to Pro T.)
MDMK (Neutral)	Left Front (Pro to Anti-T.)	
JD(S) (Neutral….	CPI (M) (Pro to Anti-T.)	JD (Pro to Neutral)

Source: Manifesto (Indian National Congress 991, 1996, 1998, 1999, 2004, 2009, 2014; Bharatiya Janta Party 991, 1996, 1998, 1999, 2004, 2009, 2014; Communist Party of India 991, 1996, 1998, 1999, 2004, 2009, 2014; Pai 2013 etc.
*Note: Pro T- pro free trade, Anti T- anti free trade, Neutral- not supporting either free trade or protective trade

The communist party (left-wing parties) has passionately opposed trade policy reform in 1991 and even in 2012. However, when communist party was in United Front governments (UF) with the support of 16 regional parties, they supported UF government on policy reform on financial sectors as well as on foreign direct investment (FDI) (Tendulkar and Bhavani 2012, 176-77).

Western democracies political parties ideology and policy preference are almost similar. In the Indian context, political parties 'ideology is fixed but policy preference depends on the political parties political situation (political parties in government have different policy preference, but when they are in opposition they change their policy preference) (Table 6-1).

Political parties' policy preference mostly depends on regional agenda and vote bank politics. For example, from 1999 to 2004, when BJP led NDA coalition government was in power, the NDA coalition partners SHS (Shiv Sena) and SAD (Shiromani Akali Dal) supported trade policy reform in India. But in 2012, when congress led UPA collation government to propose a trade policy reform on the retail sector, the same parties who (SHS and SAD) supported reform on NDA coalition government, strongly opposed the trade policy reform in 2012. Therefore, empirical findings on political party's ideology are not supported with regards to trade policy change in India. Political party's ideology is fixed but their policy preference does not totally depend on ideology in India. Next part will try to re-examine the relationship between the number of coalition partners and trade policy change in India.

2) The Number of Coalition Partners and Trade Policy

According to Mansfield and Milner (2010, 35-36), the number of veto players plays a significant role in determining whether countries are willing and able to establish a Preferential Trading Agreements (PTA). In India when the government wants to take any decision regarding trade policy, more trade liberalization and tariff reduction, they need to pass it through parliament, and they need a majority in parliament, only then they could pass any changes.

In a coalition government, the government limited power to take decisions independently; they need to take the collective decision on any policy. If there are only a few parties in the coalition government, then it is easier to make consciousness on one decision, but when the number of coalition partners with diverse regional, religion, cast, ideology and language based coalition increases in government, it becomes more and more difficult to make consciousness on reform. So one could say that in coalition governments with a high number of coalition partners there is a bigger chance of delaying the trade policy reform or a coalition government with a high number of coalition partners has more difficulty in changing trade policy.

According to Dellis (2007, 82-83), in the coalition government, sometimes a coalition member who favors a reform may nonetheless choose to veto its adoption (thus delaying it until after the next election) and let his coalition partners share the blame for not adopting trade reform policy. Coalition government tries to avoid strong decisions for policy change. The government could easily blame coalition partners for the late trade reform and it could make it difficult to change trade policy (from protective trade policy to free trade policy).

Table 6-2 shows, the number of coalition partners; from 1991 to 1996 the reduction of tariff rates is very high. But after 1996, tariff rates fluctuate according to the number of coalition partners, when the number of coalition partners increases the tariff rate also increases and when the number of coalition partners decreases tariff rate also decrease.

Table 6-2 Coalition government and Tariff rate in India

year	Type of Government (SPG or CPG)	Total party in CG. (no. of Veto players)	Tariff rate (%)	Exchange rate	GDP growth	Trade (% of GDP	Taxes on international trade	Customs and other import duties
1988-1990 1990-1991	NF CG (V.P. Singh) SJP CG (C. Shekhar)	7 3	71.56	-	-	-	-	-
1991-1996	SPG	1	27.81	29.73	5.51	19.64	23.77	31.7
1996-1997 1997-1998 1998-1999	UFCG. (Dive Gowda) UFCG (Gujral) BJP-led CG	15 16 25	30.62	38.18	6.65	22.86	21.03	29.42

1999-2004	NDA-I: (CG)	24	24.98	45.94	6.18	28.71	11.67	22.16
2004-2009	UPA-I (CG)	17	19.69	44.66	8.11	44.34	14.11	16.93
2009-2014	UPA-II (CG)	23	19.95	42.54	7.46	42.32	14.29	17.21
2014-	NDA-II (CG)	13			7.42	49.56		

Source: WDI (2013) and Election Commotion of India (2015)

Note: SPG- Single Party Government, CPG- Coalition Party Government, CG- Coalition Government, NF – National Front (Third front), SJP- Samajwadi Janta Party, UFCG. (Deve Gowda)- United Front (Third Front) Coalition Government led by Prime Minister H.D. Deve Gowda), UFCG (Gujral)- Front (Third Front) Coalition Government led by Prime Minister I.K. Gujral, BJP-led CG- Bharatiya Janata Party (Indian Peoples Party) led Coalition Government, NDA-I:-National Democratic Alliance led by Bharatiya Janata Party (first tenure), UPA-I: – The United Progressive Alliance led by Congress party (first tenure), UPA-II:- The United Progressive Alliance led by Congress party (2nd tenure), NDA-II:- National Democratic Alliance led by Bharatiya Janata Party (2nd tenure).

Table 6-2 (Coalition government and Tariff rate in India), shows the number of parties (veto player) in a coalition government and tariff rate (%). After coalition government from 1987~1991, single party (Congress Party) came to power and from 1991 to 1996 the center (central government) was ruled by a single party government (Congress party) and at that time tariff rate falls down from 71.56% to 27.81%, but in 1996 United Front (UF) headed initially by H.D. Dive Gowda and later by I.K. Gujral formed a coalition government with the help of regional parties. They remained in office till 1997. In 1998, right–wing nationalist party the Bharatiya

Janta Party (Indian national party) came in power with 24 coalition partners. Table 17 shows that from 1996 to 1999, the number of coalition partners increased from 15 coalition partners to 25 coalition partners in a coalition government, and at that time tariff rate has increased from 27.82 % to 30.62 %.

In 1999, when National Democratic Alliance (NDA) (first tenure of NDA) led by Bharatiya Janta Party, headed by Atal Bihari Vajpayee came to power with 24 coalition partners. From 1999 to 2004, a number of coalition partner’s decrease from 25 coalition partners to 24 coalition partners in NDA-I coalition government, and that time tariff rate has decreased from30.62% to 24.98%.

In 2004, United progressive Alliance (UPA-I) (first tenure) led by Congress party and headed by Manmohan Singh came in power with 17 coalition partner. From 2004 to 2009, a number of coalition partner’s decreases from 24 coalition partners to 17 coalition partners in UPA-I coalition government, and that time tariff rate has decreased from 24.98 % to 19.69 %.

But, in 2009, when UPA-II retained their power headed again by Manmohan Singh with 23 coalition partner, suddenly tariff rate increased. From 2009 to 2014, the number of coalition partners increases from 27 coalition partners to 23 coalition partners in UPA-II coalition government, and at that time tariff rate has increased from19.69 % to 19.95 %.

This study finds that when the number of parties increases in a coalition government, tariff rate (%) also increases and when the number of parties decreases in a coalition government, tariff rate (%) also decreases. Therefore, the coalition government with a high number of coalition partners has high tariff rate. And coalition governments with a high number of coalition partners delay the trade policy reform. In other words, a coalition government with a high number of coalition partners has more difficulty to change trade policy (from protective trade policy to free trade policy).

The diverse regional parties with local agenda not only oppose the free trade policy change at the center but also at the state level. Therefore, Indian coalition government, unlike other coalition governments of the world is responsible for slow trade policy change. And this study finds that more parties in coalition government result into delayed trade policy changes and a large number of political parties in a coalition government results into slow trade policy changes in India.

CHAPTER 7

Conclusion

This study has examined how democracy affects to the free trade policy in India from 1947 to 2014. Existing conventional theories suggest that democracy accelerates free trade policy and that democratic countries have more free trade policy than autocracies. However, this study gives a contrary argument of the conventional theory and explained how the conventional theory is not applicable to the Indian case. Existing conventional theories failed to explain why trade barriers vary across democratic countries and why some democratic countries have more liberal free trade policy than others. This study attempts to answer to some important and underexplored questions like what explains the variation in trade policy among democratic countries and how India have more protective trade policy than other democratic countries.

This study found that, that the type of democracy is important for the adoption of free trade policy reform. The consociational democracy has a different impact on free trade policy from the majoritarian democracy. This study also found that consociational democracy could hinder the free trade policy through federalism and coalition government.

In this study, several chapters have been taken into account to define the main agenda of this dissertation. Chapter 3 examines the trade liberalization policies in India between 1947~1990. This study uses the economic crisis, international pressure, the political ideology of Prime Minister, political pressure from the opposition, and types of government to analyze a free trade policy reform in India since 1947. It shows that from 1947 to 1980 was an era of controlled based on a development strategy in India. Before the 1980s, India's trade policy was more controlled. India's trade policy was more favorable to its domestic industry and agriculture production. Over the years this gave rise to the architecture of permits, permissions, and licenses to provide protection to domestic industry. From the 1980s, Indian government started to loosen its control on import and investment licensing, and it called moving towards liberalization policy. It also shows that from 1947 to 1990, four times (1951, 1966, 1976 and 1985) Indian government tried to liberalize policy but all four times government could not maintain its liberalization policy and government reversed liberalization policy.

Another interesting finding is that the economic crisis, international pressure from the IMF or the World Bank and single party government are the main causes of trade liberalization policy in India. However, Prime Minister's socialist ideology, political opposition of government and coalition government were the main causes for reversal of liberalization policy in India.

Chapter 4 has examined the trade liberalization policies in India since 1991. It analyses why some countries liberalize their policy early but why some countries government avoided liberalizing trade policies and struggled for protective policies. It finds that the collapse of the Soviet economy, economic crisis, international pressure from the IMF and the World Bank and single party government are the main causes of liberalizing trade policies in India. However, because of coalition partners, Indian government reversed 2012 liberalization trade policy in 2013.

Chapter 5 has examined India's federal system in the context of country's free trade policy reform. It finds that because of a decentralized system, central government and state government have to agree on policy reform, and it took a long time for the central government, and states government to agree on a policy issue, which caused the delay of the free trade policy making process. It also finds that federal system may hinder free trade policies through a decentralized system in India. A conflict between center-state, the multi-level governance, the multiparty government and the rise of regional parties are the main factors of delaying the process of free trade policy reform in India.

Chapter 6 has examined the impact of coalition governments on the trade policy changes in India. The central focus of this study is to examine why India has more trade protection than other democratic countries. It gives the brief introduction of the relationship between coalition partners and the process of liberalization in India. It finds that the coalition partners (veto players) have the ability to block the process of free trade policy (liberalization policy) or tariff reduction policy, and that their assent is necessary to change any existing trade policies in India. Therefore, coalition partner agenda (most of the coalition partners are region based political parties, and their agenda are mostly based on regional issues) is limited to the regional level which hampers the whole country from adopting free trade policy. Indian collation politics is becoming more matured; it has a good form of democratic ideology of nation states, but it is not good for the trade policy change. The coalition government of India has a comprehensive and inclusive sense of the political system, but it becomes negative for the high trade growth. And therefore Indian democratic coalition form of government and trade policy need to be balanced.

The contributions of this study are mainly in four folds. First, unlike prior studies that exclusively focused on the positive effects of democracy, on free trade policy, the present study investigates the variation of free trade policy among democratic countries. In addition, it attempts to analyze why India has more protective trade policy than other democratic countries. This study provides a grand view over the nexus between the type of democracy and free trade policy reform. Evidence supports that the consociational type of democracy has a negative impact on free trade policy reform in India.

Second, unlike prior studies that exclusively focused on liberalization policies through economic factors, the present study investigates what are the main political-economic reasons behind trade reform policies in India.

Third, this study proposes an original explanation for the impact of federalism on free trade policy with the case study of India. Very limited number of studies has examined the impact of federalism on free trade policy. The main purpose of studying the nexus between federalism and the free trade policy reform is to find out whether a federal political system promotes or hinder the free trade policy. The present study identifies the factors through which federalism could impact free trade policy. Evidence supports that a conflict between center-state, the multi-level governance, the multiparty government, and the rise of regional parties delay the process of free trade policy reform in India.

Fourth, this study proposes that the number of veto players is important for policy outcomes rather than their ideological orientations in India. Prior studies show that the number of veto players and ideological distance between veto players affects the policy outcome. The present study shows that the number of veto players is important for trade policy changes, but the ideological distance among veto players is not important in the Indian case. This study also shows that the regional parties play an important role in policy making process in India.

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Appendices

Appendix 1 Democratic Countries and Free Trade Policies (Tariff Rate)

	Countries	Tariff rate (%)		Countries	Tariff rate (%)
1	Norway	0.4	9	Korea	9.7
2	Sweden	2.1	10	USA	3
3	Iceland	2.7	11	Japan	3.3
4	Denmark	2.2	12	India	19.7
5	New Zealand	2.6	13	Brazil	13.4

6	Canada	4.2	14	Malaysia	6.8
7	Germany	2.2	15	Sri Lanka	11.3
8	UK	2.2			

Source: Polity IV (2013), Freedom House, and World Development Indicators (2015)

Appendix 2 Trends in the Direction of India's Trade: 1987 to 1991 (US $ Million)

year	OECD countries	OPEC countries	Eastern Europe	Developing countries	Total Trade
1987-1988					
Exports	7121.7	741.9	2000.6	1718.8	12088.5
Imports	10265.5	2277.4	1639.5	2967.2	17155.7
1988-1989					
Exports	8132.0	823.7	2317.3	2344.4	13970.4
Imports	11833.4	2609.6	1344.7	3697.9	19497.2
1989-1990					
Exports	9287.3	1105.6	3202.3	2593.1	16612.5
Imports	12784.2	3031.6	1781.2	3618.6	21219.2

1990-1991					
Exports	10248.8	1020.8	3243.2	3098.7	18145.2
Imports	13773.0	3924.0	1882.2	4490.4	24072.5

Source: Reserve Bank of India (1996) and Mathur (2006)

Appendix 3 Trends in the Direction of India’s Trade: 1990 to 2012 (US $ Million)

year	OECD Countries	OPEC Countries	Eastern Europe	Developing Countries	Total Trade
1990-1991					
Exports	10248.8	1020.8	3243.2	3098.7	18145.2
Imports	13773.0	3924.0	1882.2	4490.4	24072.5
1991-1992					
Exports	10337.0	1561.8	1952.7	3587.1	17865.4
Imports	10522.4	3821.1	991.6	4074.0	19410.5
1992-1993					
Exports	11209.8	1788.4	814.6	4236.1	18537.2
Imports	12269.3	4776.7	554.4	4280.9	21881.6

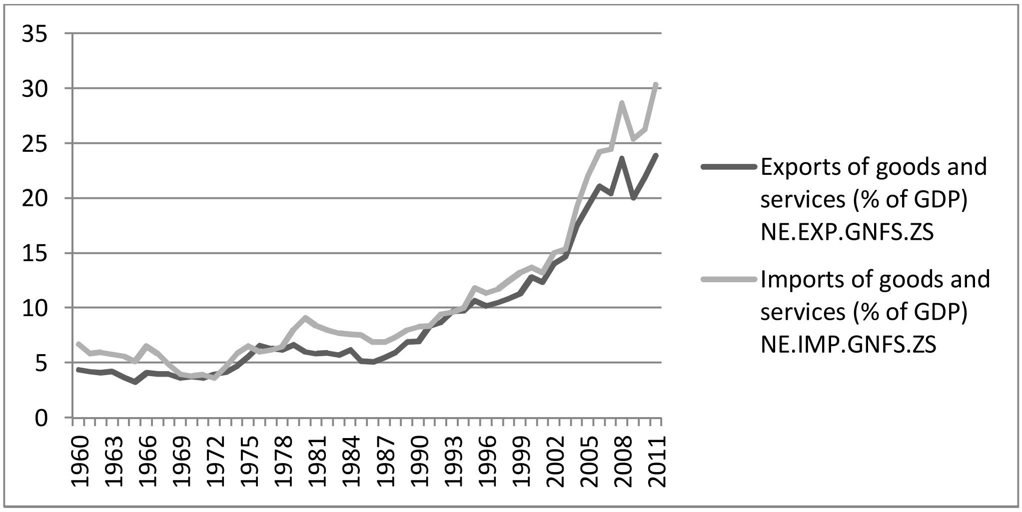
1993-1994					
Exports	12648.3	2382.2	1001.4	5797.6	22238.3
Imports	13083.5	5221.5	563.1	4435.4	23306.2
1994-1995					
Exports	15443.8	2428.6	1057.1	6969.5	26330.5
Imports	14731.7	6050.1	967.6	6902.4	28654.4
1995-1996					
Exports	17705.1	3079.0	1340.0	9198.4	31794.9
Imports	19209.2	7644.4	1673.8	8145.0	36675.3
1996-1997					
Exports	18601.4	3228.8	1098.5	10036.7	33469.7
Imports	19456.6	10142.6	1102.7	8426.8	39132.4
1997-1998					
Exports	19484.9	3527.4	1283.3	10312.1	35006.4
Imports	21335.8	9404.0	1114.6	9626.1	41484.5
1998-1999					
Exports	19264.0	3550.7	1052.9	9221.3	33218.7
Imports	21859.7	7765.4	863.9	11895.2	42388.7
1999-2000					
Exports	21106.6	3895.8	1292.9	10460.0	36822.4
Imports	21364.3	12850.7	994.6	14524.0	49670.7
2000-2001					
Exports	23473.6	4850.0	1317.8	13012.6	44560.3

Imports	20157.9	2688.8	850.2	11156.2	50536.5
2001-2002					
Exports	21622.1	5224.5	1254.8	13535.5	43826.7
Imports	20640.6	2965.8	946.8	12776.4	51413.3
2002-2003					
Exports	26382.6	6884.6	1248.1	17862.3	52719.4
Imports	23301.1	3479.4	1139.9	15688.2	61412.1
2003-2004					
Exports	27629.2	9544.4	1355.4	22784.3	63842.6
Imports	29572.1	5609.2	1628.9	20567.2	78149.1
2004-2005					
Exports	28677.2	10259.6	1439.5	23781.0	64507.1
Imports	30681.6	7877.0	1929.1	22505.0	87259.9
2005-2006					
Exports	37067.4	12073.1	1577.3	31458.8	82395.8
Imports	38902.4	9158.3	3260.5	30614.8	117872.1
2006-2007					
Exports	47587.9	18840.1	1386.4	45260.2	113400.9
Imports	54160.1	51067.9	3265.7	53306.9	162502.4
2007-2008					
Exports	57201.4	23869.1	1603.5	60464.9	143567.9
Imports	70626.4	68808.8	3571.2	72363.5	216237.4
2008-2009					

Exports	60091.6	29632.5	1781.0	60180.8	153018.2
Imports	82394.0	87516.0	6348.8	85952.1	263275.7
2009-2010					
Exports	46174.4	26882.6	1282.5	48974.6	127182.5
Imports	69270.2	63943.0	4776.9	67907.3	207315.2
2010-2011					
Exports	57508.3	35924.7	1908.2	68640.0	174,782.4
Imports	83439.9	88765.8	4390.3	90513.1	269175.2
2011-2012					
Exports	76626.1	42236.3	2433.5	91851.1	228040.7
Imports	108630.6	125176.9	5772.6	120845.6	362026.9

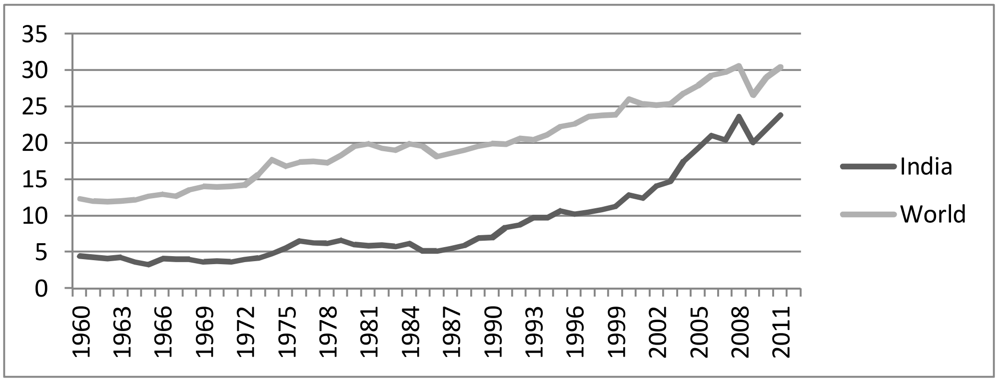
Source: Reserve Bank of India (2007, 2013) and Mathur (2006)

Appendix 4 Export and Import in India



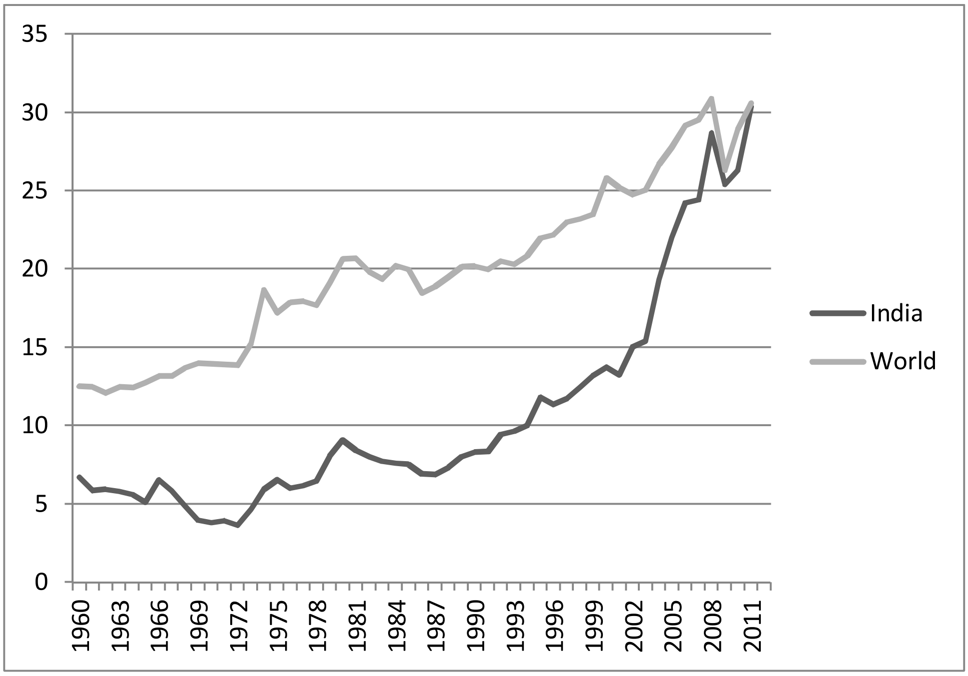
Source: The World Bank (2014)

Appendix 5 Exports (% of GDP) in India and World



Source: The World Bank (2014)

Appendix 6 Imports (% of GDP) in India and World



Source: Source: The World Bank (2014)

Appendix 7 Doing Business 2014

Country	Ease of Doing Business Rank	Starting a Business	Registering Property	Getting Credit	Protecting Minority Investors	Paying Taxes	Trading Across Borders
Singapore	1	6	24	17	3	5	1
New Zealand	2	1	2	1	1	22	27
Hong Kong SAR, China	3	8	96	23	2	4	2
Denmark	4	25	8	23	17	12	7
Korea, Rep.	5	17	79	36	21	25	3
Norway	6	22	5	61	12	15	24
United States	7	46	29	2	25	47	16

United Kingdom	8	45	68	17	4	16	15
Finland	9	27	38	36	76	21	14
Australia	10	7	53	4	71	39	49
Sweden	11	32	18	61	32	35	4
Iceland	12	31	23	52	28	46	39
Ireland	13	19	50	23	6	6	5
Malaysia	18	13	75	23	5	32	11
India	142	158	121	36	7	156	126
West Bank and Gaza	143	162	99	116	141	51	130
Gabon	144	135	181	104	146	154	135
Micronesia, Fed. Sts.	145	151	189	61	186	114	106
Mali	146	169	133	131	146	145	163

Source: Doing Business (2014) and the World Bank (2014)

Appendix 8 Parties in Governments (Single Party Government or Coalition Government) in India since 1947

	Date	**Name of Prime Minister**	**Name of Governments**	**Single party Govt./ Coalition Govt.**	**# Parties in Govt.**	**Leading Parties in Coalition Govt.**
1	1947.08.15 ~1952	Jawaharlal Nehru	Congress	SPG	1	Congress
2	1952~ 1957	Jawaharlal Nehru	Congress	SPG	1	Congress
3	1957~ 1964.05.27	Jawaharlal Nehru	Congress	SPG	1	Congress
4	1964.05.27 ~ 1964.06.09	Gulzarilal Nanda*	Congress	SPG	1	Congress
5	1964.06.09 ~ 1966.01.11	Lal Bahadur Shastri	Congress	SPG	1	Congress
6	1966.01.11 ~ 1966.01.24	Gulzarilal Nanda*	Congress	SPG	1	Congress
7	1966.01.24	Indira	Congress	SPG	1	Congress

	~1967	Gandhi				
8	1967~ 1971	Indira Gandhi	Congress	SPG	1	Congress
9	1971~ 1977.03.24	Indira Gandhi	Congress	SPG	1	Congress
10	1977.03.24 ~ 1979.07.28	Morarji Desai	Janata Party	CG	2	Janata Party
11	1979.07.28 ~ 1980.01.14	Ch. Charan Singh	Janata Party Secular	CG	3	Janata Party Secular
12	1980.01.14 ~ 1984.10.31	Indira Gandhi	Congress	SPG	1	Congress
13	1984.10.31 ~ 1984.12.31	Rajiv Gandhi	Congress	SPG	1	Congress
14	1984.12.31 ~ 1988.12.02	Rajiv Gandhi	Congress	SPG	1	Congress
15	1988.12.02 ~ 1990.11.10	Vishwanath Pratap Singh	Janata Dal-led NF	CG	7	Janata Dal
16	1990.11.10 ~ 1991.06.2	Chandra Shekhar	Samajwad i Janata Party	CG	3	Samajwa di Janata Party
17	1991.06.2~ 1996.03.19	P. V. Narasimha Rao	Congress		1	Congress
18	1996.03.19 ~ 1996.06.01	Atal Behari Vajpayee	BJP-led coalition	CG	3	BJP
19	1996.06.01 ~ 1997.04.21	H. D. Deve Gowda	Janata Dal-led UF	CG	15	Janata Dal
20	1997.04.21 ~ 1998.03.19	Inder Kumar Gujral	Janata Dal-led UF	CG	16	Janata Dal
21	1998.03.19 ~ 1999.10.13	Atal Behari Vajpayee	BJP-led coalition	CG	25	BJP
22	1999.10.13 ~ 2004.05.22	Atal Behari Vajpayee	BJP-led NDA	CG	24	BJP
23	2004.05.22	Manmohan	Congress-	CG	17	Congress

	~ 2009.05.22	Singh	led UPA			
24	2009.05.22 ~ 2014.05.22	Manmohan Singh	Congress-led UPA	CG	23	Congress
25	2014.05.26 ~	Narendra Modi	BJP-led NDA	CG	13	BJP

Source: Election commission of India. 2015.

Note: Single Party Government, CG. – Coalition Government

*After death of Prime Minister Nehru in 1964 and death of Prime Minister Shastri, Gulzarilal Nanda became a acting Prime Minister for 13 days.

Note: SPG. –

Appendix 9 Coalition Governments in India

S. no.	**Coalition and/or Minority Governments (leading party or coalition)**	**Number ofParties in Government**	**Date of Swearing in**	**Date of resignation or notification of fresh elections**	**Number of days**
1	Janata Party	2	24 March 1977	15 July 1979	843
2	Janata Party (Secular)	2	28 July 1979	20 August 1979	23
3	Janata Dal-led National Front	3	2 December 1989	7 November 1990	340
4	Samajwadi Janata Party	2	10 November 1990	6 March 1991	116
5	BJP-led coalition	3	16 May	28 May 1996	12

			1996		
6	UF under H.D. Deve Gowda	15	1 June 1996	21 April 1997	324
7	UF under I.K. Gujral	16	21 April 1997	28 November 1997	221
8	BJP-led coalition	25	19 March 1998	17 April 1999	394
9	NDA	24	13 October 1999	29 February 2004	1599
10	UPA I	17	22 May 2004	2 March 2009	1745
11	UPA II	23	22 May 2009	-	-

Source: Election commotion of India (2015), Raj (2009), and Sridharan (2012)

Appendix 10 Parties in Coalition Governments, Names, and Numbers

Govt.	**Number of Parties in ministry from Lok Sabha (Upper House)**	**Parties in ministry from Rajya Sabha (Lower House)**	**Post-Electoral allies joining the ministry**	**Post-election/split parties offering external support to the government**	**Pre-electoral Coalition Parties opting to give External support to the ministry**	**Number of Parties in Coalition Government**
Janata Party	JP, SAD (2)	-	-	-	-	2
Janata Party Secular	JP(S), AIADMK (2)	-	-	Congress	-	3
National Front	JD, TDP, Cong(S) (3)	DMK, AGP	-	-	BJP and the Left Parties supporting from outside[a]	7

Samajwadi Janata Party	SJP(1)	Janata Party	-	Congress supporting from outside	-	3
BJP	BJP, SHS, SAD (3)	-	-	-	-	3
UF under Deve Gowda	JD, TMC, SP, DMK, TDP, CPI, Cong(T), AGP, MGP (9)	Y K Alagh, B. S. Ramoowalia	CPI	CPI(M), RSP, AIFB, Congress	-	15
UF under Inder Kumar Gujral	JD, TMC, SP, DMK, TDP, CPI, Cong(T), AGP, MGP (9)	NC, Y K Alagh, B. S. Ramoowalia	-	CPI(M), RSP, AIFB, Congress	-	16
BJP-led coalition	AC, BJP, SMT, BJD, PMK, SAD, SHS, AIADMK, LS, Inds (Buta Singh, Maneka Gandhi)	TRC	AC	NC, TDP, HLD(R), SDF, MSCP, BSMC, Citizen Common Front, RJP (A. M. Singh)	WBTC, HVP, MDMK, Ind (S. S. Kainth)	25
NDA	BJP, RLD, WBTC, SHS, SAD, JD(U), DMK, MDMK, NC, MSCP, Ind (Maneka Gandhi), PMK, BJD, IFDP [b]	Ram Jethmalani	NC, RLD, IFDP	Independents (S. K.Bwismuthiary, Vanlalzawma)	TDP, INLD, SDF, HVC, ABLTC, MADMK[C]	24
UPA I	Congress, NCP, IUML, PMK, DMK, JMM, TRS, LJP, RJD	-	-	Left Front, SP, BSP, AIMIM, SDF	JKPDP, MDMK, Kerala Congress	17
UPA II	Congress,	-	-	SP, BSP, RJD,	JMM,	

	WBTC, DMK, NCP, NC, IUML RLD			JD(S), SDF, NPF, AUDF, JVM(P), BVA, Inds (M. Koda, S. Mandlik, G. H. Khan)	AIMIM, BPF, Kerala Congress, VCK	23

Note: party name: JP(S): Janata Party (Secular); SAD: Shiromani Akali Dal; JD: Janata Dal; DMK: Dravida Munnetra Kazhagam; TDP: Telugu Desam Party; AGP: Asom Gana Parishad; Cong(S): Congress (Socialist); SJP: Samajwadi Janata Party; BJP: Bharatiya Janata Party; SHS: Shiv Sena; TMC: Tamil Maanila Congress; SP: Samajwadi Party; CPI: Communist Party of India; CPI(M): Communist Party of India (Marxist); Cong (T): Congress (Tiwari); MGP: Maharashtrawadi Gomantak Party; NC: National Conference; RSP: Revolutionary Socialist Party; AIFB: All India Forward Bloc; AC: Arunachal Congress; SMT: Samata Party; BJD: Biju Janata Dal; PMK: Pattali Makkal Katchi; AIADMK: All India Anna Dravida Munnetra Kazhagam; MDMK: Marumalarchi Dravida Munnetra Kazhagam; NC: Jammu & Kashmir National Conference; MSCP: Manipur State Congress Party; TRC: Tamizhaga Rajiv Congress; HLD(R): Haryana Lok Dal (Rashtriya); SDF: Sikkim Democratic Front; BSMC: Bodoland State Movement Committee; BPF: Bodoland People's Front; RJP: Rashtriya Janata Party; HVP: Haryana Vikas Party; HVC: Himachal Vikas Congress; RLD: Rashtriya Lok Dal; WBTC: West Bengal Trinamul Congress; JD(U): Janata Dal (United); ABLTC: Akhil Bharatiya Loktantrik Congress; MADMK: MGR Anna Dravida Munnetra Kazhagam; IUML: Indian Union Muslim League; JMM: Jharkhand Mukti Morcha; TRS: Telangana Rashtra Samithi; LJP: Lok Janshakti Party; RJD: Rashtriya Janata Dal; BSP: Bahujan Samaj Party; JKPDP: Jammu & Kashmir People's Democratic Party; AIMIM: All India Majlis Ittehadul Muslimeen; IFDP: Indian Federal Democratic Party; NPF: Nagaland People's Front; AUDF: Assam United Democratic Front; JVM(P): Jharkhand Vikas Morcha (Prajatantrik); Bahujan Vikas Aghadi; VCK: Viduthalai Chiruthaigal Katchi. Source: http://www.indian-elections.com/index.html, accessed on 2013/08/20; http://www.rediff.com/news/elec.htm, accessed on 2013/08/20.

[a] Comprehensive seat adjustments without formal coalition

[b] Fourteen parties were part of the BJP-led NDA at various times but they were not there at the same time; the largest government was of 12 parties.

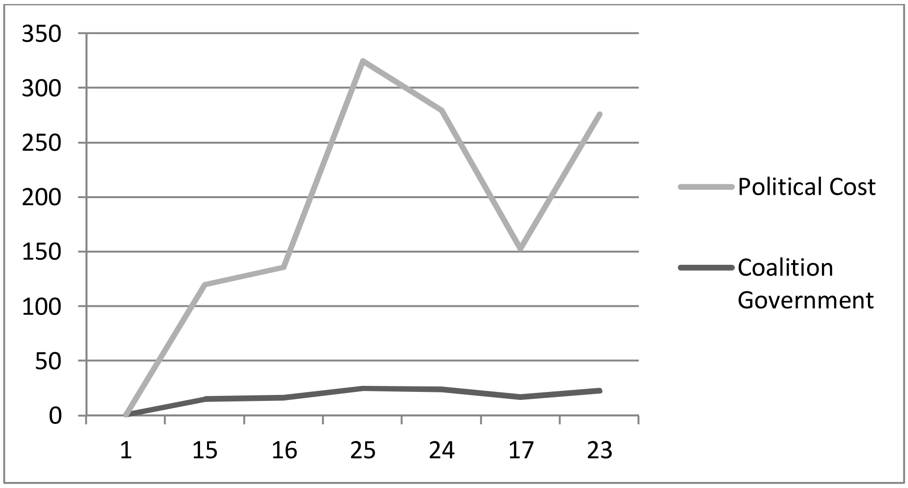
[C] AC, TRC and two BSP splinter groups won no seats.

Appendix 11 No. of Coalition Partners in Government and GDP Growth in India

Year	*Government*	*No. of party in coalition govt.*	GDP Growth
1999-2003	*NDA*	*24*	5.8
2004-2008	UPA I	*17*	*8.0*
2009-2012	UPA II	*23*	*7.1*

Source: World Development Indicators (2015) and Election Commission of India (2015)

Appendix 12 Coalition Government and Political Cost



Appendix 13 Political Parties and their Identities

	Name of the Party		Parties Identities
1	Bahujan Samj Party	BSP	Centrist national political party with socialist leaning
2	Bharatiya Janata Party	BJP	National Political Party with right-wing religious nationalist
3	Communist Party of India	CPI	National & Ideological based Political Party
4	Communist Party of India (Marxist)	CPI (M)	National & Ideological based Political Party
5	Indian National Congress	INC	National Political Party
6	Nationalist Congress Party	NCP	National Political Party
7	Telugu Desam Party	TDP	Regional political party
8	Telangana Rastra Samithi	TRS	Regional separatist political party
9	All India Anna Dravida Munnetra Kazhagam	AIADMK	Regional political party
10	Janata Dal (Secular)	JD (S)	Regional political party

11	Akhil Bharatiya Loktantrik Congress	ABLTC	Regional political party
12	Arunachal Congress	AC	Regional political party
13	Asom Gana Parishad	AGP	Regional political party
14	All India Forward Bloc	AIFB	Leftwing nationalist political party
15	All India Majlis Ittehadul Muslimeen	AIMIM	Regional and Religion base political party
16	Assam United Democratic Front	AUDF	Regional political party
17	Biju Janata Dal	BJD	Regional political party
18	Bodoland People's Front	BPF	Regional separatist political party
19	Bodoland State Movement Committee	BSMC	Regional separatist political party
20	Bahujan Vikas Aghadi	BVA	Regional and cast base political party
21	Congress (Tiwari)	Cong (T)	Regional political party
22	Congress (Socialist)	Cong(S)	Regional and socialist political party
23	Dravida Munnetra Kazhagam	DMK	Regional political party
24	Haryana Lok Dal (Rashtriya)	HLD(R)	Regional political party
25	Himachal Vikas Congress	HVC	Regional political party
26	Haryana Vikas Party	HVP	Regional political party
27	Indian Federal Democratic Party	IFDP	Regional political party
28	Indian Union Muslim League	IUML	Regional and Religion base political party
29	Janata Dal	JD	Regional political party
30	Janata Dal (United)	JD(U)	Regional political party
31	Jammu & Kashmir People's Democratic Party	JKPDP	Regional political party
32	Jharkhand Mukti Morcha	JMM	Regional political party
33	Jharkhand Vikas Morcha (Prajatantrik)	JVM(P)	Regional political party

34	Lok Janshakti Party	LJP	Regional political party
35	MGR Anna Dravida Munnetra Kazhagam	MADMK	Regional political party
36	Marumalarchi Dravida Munnetra Kazhagam	MDMK	Regional political party
37	Maharashtrawadi Gomantak Party	MGP	Regional political party
38	Manipur State Congress Party	MSCP	Regional political party
39	Jammu & Kashmir National Conference	NC	Regionalpolitical party
40	National Conference	NC	Regional political party
41	Nagaland People's Front	NPF	Regional political party
42	Pattali Makkal Katchi	PMK	Regional and Language based political party
43	Rashtriya Janata Dal	RJD	Regional political party
44	Rashtriya Janata Party	RJP	Regional political party
45	Rashtriya Lok Dal	RLD	Regional political party
46	Revolutionary Socialist Party	RSP	Regional& Ideological based Political Party
47	Shiromani Akali Dal	SAD	Regional and Religion based political party
48	Sikkim Democratic Front	SDF	Regional political party
49	Shiv Sena	SHS	Regional and Religion based political party
50	Samajwadi Janata Party	SJP	Regional political party
51	Samata Party	SMT	Regional political party
52	Samajwadi Party	SP	Regional political party
53	Tamil Maanila Congress	TMC	State political party
54	Tamizhaga Rajiv Congress	TRC	Regional political party
55	Viduthalai Chiruthaigal Katchi	VCK	Regional and Race based political party
56	West Bengal Trinamul Congress	WBTC	State political party
57	People's Party of Arunachal	PPA	State political party
58	Haryana Janhit Congress	HJC (BL)	State political party

	(BL)		
59	Indian National Lok Dal		Regional political party
60	Jammu & Kashmir National Panthers Party	NPP	Regional political party
61	All Jharkhand Students Union Party	AJSUP	State political party
62	Kerala Congress (M)	KC (M)	Regional political party
63	Maharashtra Navnirman Sena	MNS	Regional and Language based political party
64	All India Trinamool Congress	AIT(c)	Sub-national state-level political party
65	Manipur People's Party	MPP	State political party
66	National People's Party	NPP	Regional political Party
67	Hill State People's Democratic Party	HSPDP	Regional, race and nationalist view based political party
68	Mizo National Front	MNF	State political party
69	Mizoram People's Conference	MPC	State political party
70	Zoram Nationalist Party	ZNP	State political party
71	Desiya Murpokku Dravida Kazhagam	DMDK	Regional political party

Source: Election Commission of India (2013, 2015)

Appendix 14 Political Parties' Policy Preferences on Trade Policy Reform

Party	Year	Government	Opposition	Pro-Trade	Anti-Trade	Neutral
Congress	1991-96, 2004-	✔	-	✔	-	-
	1996-2004	-	✔	✔	-	-
BJP	1999-2004	✔		✔	-	-
	1991-98, 2004--	-	✔	-	✔	-

SHS	1999-2004	✔	-	✔	-	-
	2004---	-	✔	-	✔	-
SAD	1999-2004	✔	-	✔	-	-
	2004---	-	✔	-	✔	-
WBTC	1999-2004	✔	-	✔	-	-
	2004-12	✔	-	-	✔	-
RLD	1999-2004	✔	-	✔	-	-
	2009-12	✔	-	✔	-	-
JD(U)	1999-2004	✔	-	✔	-	-
	2004-12	-	✔	-	✔	-
DMK	1999-2004	✔	-	✔	-	-
	2004--	✔	-	-	✔	-
BJD	1999-2004	✔	-	✔	-	-
	2004--	-	✔	✔	-	-
IFDP	1999-2004	✔	-	-	-	✔
	2004--	-	✔	-	-	✔
MDMK	1999-2004	✔	-	-	-	✔
	2004--	-	✔	-	-	✔
PMK	1999-2004	✔	-	-	-	✔
	2004--	-	✔	-	-	✔
NC	1999-2004	✔	-	-	✔	-
	2004--	-	✔	-	✔	-
MSCP	1999-2004	✔	-	-	-	✔
	2004--	-	✔	-	-	✔
TDP	1999-2004	✔	-	-	-	✔
	2004--	-	✔	-	-	✔
JD	1997-1998	✔	-	✔	-	-
	1998- --	-	✔	-	-	✔
NCP	1999-2004	-	✔	-	✔	-
	2004---	✔	-	✔	-	-
IUML	1991-2004	-	✔	-	-	✔
	2004--	✔	-	-	-	✔
SP	2004-2009	✔	-	✔	-	-
	2009--	✔	-	-	✔	-
BSP	2004-2009	✔	-	✔	-	-
	2009--	✔	-	-	✔	-
RJD	2004-2009	✔	-	✔	-	-
	2009--	-	✔	-	✔	-
JD(S)	2004-2009	-	✔	-	-	✔
	2009--	✔	-	-	-	✔
SDF	1991-1996	-	✔	-	✔	-

	1998- -	✔	-	✔	-	-
NPF	2004-2009	-	✔	-	-	✔
	2009--	✔		-	-	✔
AUDF	2004-2009	-	✔	-	-	✔
	2009--	✔	-	-	-	✔
JVM (P)	2004-2009	-	✔	-	✔	-
	2009--	✔	-	-	✔	-
BVA	2004-2009	-	✔	-	-	✔
	2009--	✔		-	-	✔
JMM	1999-2004	-	✔	-	✔	-
	2004--	✔	-	-	✔	-
AIMIM	1999-2004	-	✔	-	-	✔
	2004--	✔	-	-	-	✔
BPF	2004-2009	-	✔	-	-	✔
	2009--	✔	-	-	-	✔
VCK	2004-2009	-	✔	-	-	✔
	2009--	✔	-	-	-	✔
TRS	2004-2009	✔	-	-	-	✔
	2009--	-	✔	-	-	✔
LJP	1999-2009	✔	-	✔	-	-
	2009--	-	✔	✔	-	-
Left Front	1996-1998	✔	-	✔	-	-
	2008--	-	✔	-	✔	-
JKPDP	2004-2009	✔	-	-	-	✔
	2009--	-	✔	-	-	✔
INLD	1999-2004	✔	-	-	✔	-
	2004-2012	-	✔	-	✔	-
HVC	1999-2004	✔	-	-	-	✔
	2004-	-	✔	-	-	✔
ABLTC	1999-2004	✔	-	-	-	✔
	2004-	-	✔	-	-	✔
AC	1998-1999	✔	-	-	-	✔
	1999-	-	✔	-	-	✔
SMT	1998-1999	✔		-	✔	-
	1999-	-	✔	-	✔	-
CPI	1997-1998	✔		-	✔	-
	1999-	-	✔	-	✔	-
AIADMK	1997-1998	✔	-	-	✔	-
	1999-		✔		✔	-
HLD(R)	1997-1998	✔	-	-	✔	-
	1998-	-	✔	-	✔	

BSMC	1998-1999	✔	-	-	-	✔
	1999-	-	✔	-	-	✔
CPI(M)	1997-1998	✔	-	-	✔	-
	1999-	-	✔	-	✔	-
RJP	1998-1999	✔	-	-	-	✔
	1999-	-	✔	-	-	✔
HVP	1998-1999	✔		-	-	✔
	1999-		✔	-	-	✔
TMC	1996-1997	✔		-	-	✔
	1997-		✔	-	-	✔
Cong(T)	1996-1997	✔		-	-	✔
	1997-		✔	-	-	✔
AGP	1996-1998	✔		-	-	✔
	1998-		✔	-	-	✔
MGP	1997-1998	✔		-	-	✔
	1998-		✔	-	-	✔
RSP	1997-1998	✔		-	-	✔
	1998-	-	✔	-	-	✔
Kerala Congres s	1999-2004	-	✔	-	✔	-
	2004--	✔	–	✔	-	–

Source: Manifesto (Indian National Congress 991, 1996, 1998, 1999, 2004, 2009, 2014; Bharatiya Janta Party 991, 1996, 1998, 1999, 2004, 2009, 2014; Communist Party of India 991, 1996, 1998, 1999, 2004, 2009, 2014; Pai 2013 etc.