Managerial Economics
Unit-5 Indian Economy

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Nature and characteristics of Indian economy, concepts of LPG, elementary concepts of National Income, Inflation and Business Cycles ,Concept of N.I. and Measurement., Meaning of Inflation, Types and causes, Phases of business cycle. Investment decisions for boosting economy (National income and per capital income)

In This Unit We Cover the Following Topics

Please welcome for any correction or misprint in the entire manuscript and your valuable suggestions kindly mail us brijrbedu@gmail.com.

5.1 INFLATION

Inflation is generally understood as an economic process which denotes a substantial and rapid general increase in the level of prices and consequent decrease in the value of money over a period of time. In a very broad term, inflation may be defined as the general increase from year to year in the average price of goods and services.

In other words, the inflation rate is the percentage increase in the average price of all goods & services from one year to the next. Inflation represents a sustained rise in prices.

Crowther defines inflation as, "a state in which the value of money is falling or prices are rising."

Michael Edgmand defines inflation as, "a general and continuing increase in prices."

Thus, inflation is sustained rise in price level over a period of time.

5.2 CAUSES OF INFLATION

Increase in Public Expenditure→ Public expenditure in India has shown an upward trend during the last five decades. For instance, it has increased from 18.6 % of Net National Product in 1960-61 to around 33.3 % in 1980-81 and further to around 40 % in 2000-01. About 45% of the Government spending is on non-developmental activities. Due to their unproductive nature, expenditure on non-developmental activities increases the supply of money in the economy leading to higher demand for goods & services and inflationary price rise.

Expansion of Money Supply→ When the supply of money increases in an economy without corresponding rise in employment and production, inflation will arise because people are ready to pay more for the same product because of rise in their income.

Bank Credit→ Credit creation by banks may also cause inflationary trends in the country. In our country, bank credit has increased considerably since nationalization of 14 major commercial banks in July, 1969. This results in willingness to purchase more and pay more.

Black Money→ It has been alleged by some economists that existence of black money in the economy has encouraged lavish spending on consumer goods. This has contributed to the rise in prices.

Population Growth→ In India, population has been growing at a fast rate every year leading to increase in demand for goods & services. The industry cannot keep pace with this increase in demand and hence the gap between demand and supply is leading to inflationary price rise.

Natural Calamities→ Natural Calamities can throw the normal life out of gear. Calamities like cyclone, earthquake, drought, flood, etc. have destroyed our village economies in different parts of the country. India has to face several such calamities every year which causes inflationary situation.

Over dependence on Agriculture→ Indian economy is basically dependent on agriculture. Vagaries of monsoons, bad weather conditions, floods, etc. affect agricultural output adversely. This has resulted in increase in prices.

Dependence on Imports→ For some essential items we are greatly dependent on imports. Like, prices of crude oil and some other items which are imported by India have been increasing over the years. This has contributed to rise in prices of petroleum products and all other related commodities.

Miscellaneous Factors→ Various other factors like storing, black marketing, speculative activities, unfair practices, monopolistic pricing, non-optimal utilization of resources, etc. have also contributed to inflationary trends in our country.

5.3 PREVENTION/MEASURES TO CONTROL INFLATION

The measures to control inflation can either be putting of a check on the increase in money income or of increasing the availability of real goods & services. The methods used to control inflation are generally known as anti-inflationary measures.

The following are the anti-inflationary measures:

Monetary Policy→ As the term suggests, it is directly related with the supply and credit of money in the market. It is the policy of the Central Bank of the country to use methods such as bank rate, open market operations, the reserve ratio and selective controls. These methods are used to control the credit creation operation of commercial banks and thus restricting the amount of bank credit in the country. Here, if the Reserve Bank of India put a check on credit by raising the bank rate, credit becomes costly. This will result in a decrease in the demand for credit. Ultimately, the supply of money gets reduced.

Fiscal Policy→ It is the policy of the Government with regard to taxation, expenditure and public borrowing. It has a very important influence on business and economic activity. The Government will introduce new taxes and raise the rate of existing taxes with the purpose to reduce the purchasing power in the hands of the public. Also, Government expenditure should be reduced so that the demand for goods & services is further reduced. A similar effect can be achieved if savings are encouraged or through compulsory deposit schemes.

Control Over Investment→ Controlling investments is considered necessary because, due to the multiplier effect, the initial investment leads to large increase in income and expenditure and the demand for both the consumer and capital goods goes up rapidly. Therefore, it is necessary that the resources of the community should be employed for investment which does not have the effect of increasing inflation. The investment in projects should lead to utilization of idle resources, increased productivity and increased employment.

Price Control & Rationing→ Price control implies the fixing of the upper limits beyond which prices of a particular good should not rise. The purpose of rationing is to distribute the goods in short supply in an equitable manner among all people.

Increased Production→ Another important measure to stop inflation is to increase the supply of goods through either increased production or increased imports.

Compulsory Savings→ Schemes of compulsory savings may be introduced by the Government to take from each person certain portion of his earnings. Compulsory savings mean pulling aside money today to be received back on some future dates. Its main objective is to check inflation and provide for future security.

5.4 TYPES OF INFLATION

Demand-Pull Inflation→ It is that type of inflation which arises because aggregate demand for goods exceeds their aggregate supply. When demand persistently exceeds total supply of real goods & services at current prices, prices tend to rise. This results in inflation. The demand for goods may rise as a result of an expansion in the supply of money or from other influences such as changed attitude towards the spending of money or not holding it in the form of idle balances.

Cost-Push Inflation→ When prices rise due to increase in the cost of production of goods, cost push inflation results. Thus, cost-push inflation occurs when prices persistently rises because of growing factor costs. Such a rise may be caused by a rise in wages through trade union action or rise in the costs of any other input entering into production. In some cases prices may be pushed up by rise in profit margins. Sometimes higher commodity taxes imposed by the government raise the cost of production and therefore a rise in price of goods and services is seen. Thus, when prices rise due to increase in the cost of production of goods which is the result of rise in wages, profit margins and taxation, cost push inflation results.

Stagflation→ The combined phenomenon of demand-pull and cost-push inflation is stagflation. Many factors contribute to this situation which is witnessed by developed as well as developing economies. The economy where the labor unions are powerful and are successful in bargaining for higher wages which are not in keeping with productivity leading to a situation of stagflation. In developing countries, stagflation arises when aggregate demand increases at a fast rate due to high public expenditure and expansion of credit money which is more justified by the increase in real sources. Organized labors create pressure for increasing wages, thus combining cost-push effect with the demand-pull inflation.

5.5 EFFECTS OF INFLATION

Inflation affects both production and distribution of income in a country. When the country is affected by inflation, the main effect is that the rich become richer and the poor become poorer. Rising prices is not a happy situation for any country.
It has following effects:

1. All producers, traders & speculators gain during inflation because of huge profits due to the rise in prices of goods at a greater rate than costs of production as wages, interest rates, insurance premium, etc. which are more or less fixed.
2. Inflation affects badly those persons living on past savings, fixed interests and rents such as pensioners and other fixed income groups generally called the middle classes.
3. During inflation the working class also suffers since normally wages do not rise as much as the prices of those commodities and services which the workers buy and also because of time lag between the rise in the price level and rise in wages.
4. Consumers also suffer heavily on account of rising prices. It gives rise to a sense of ineffectiveness, worry and revolt among the consumers. Savings are washed out and hard work, independence and economy seem to be false.

5.6 DEFLATION

Deflation denotes the economic phenomenon when prices are falling and fall in prices is accompanied by a decreasing level of employment, output and income. While inflation implies excess demand over the available supply, deflation implies deficiency of demand over the available supply. When supply of goods is more than its demand, there is a fall in prices. Thus, deflation arises when the total expenditure of the community is less than the value of output at existing prices. As a result, the value of money goes up and the prices fall. But only falling prices cannot be called deflation. When the inflationary trend in prices is reversed by the government measures without creating unemployment and fall in output, this phenomenon is known as disinflation. While, deflation is an under-employment phenomenon as it means falling prices accompanied by a decreasing level of employment, output and income.

5.7 BUSINESS FLUCTUATIONS/CYCLES

Change is the truth of life and everybody is aware of this fact. Everything changes but one thing which never changes is change. Business fluctuations are also a part of this change. Business keeps on fluctuating with time as every business passes through various periods of different nature. These periods are called ‘Trade Cycles’ or ‘Business Cycles’.

Sometimes business is at a rise and sometimes on the downfall. Sometimes, income, employment, output and prices are all rising together while at other times they are all moving downwards more or less simultaneously. A period of prosperity is followed by a period of depression. Every boom is followed by slump. These fluctuations in economic or business activities are known as business cycles.

A business fluctuation/cycle refers to regular fluctuations in economic activities in the economy as a whole. It signifies wavelike fluctuations in aggregate economic activity particularly in national income, employment and output.

According to *Keynes*, "A trade cycle is composed of periods of good trade characterized by rising prices and low unemployment percentages, altering with periods of bad trade characterized by falling prices and high unemployment percentages."

According to *Gordon*, "Business cycles consist of recurring fluctuation of expansion and contraction in aggregate economic activity, the irregular movements in each direction being self-reinforcing and prevailing virtually all parts of the economy."

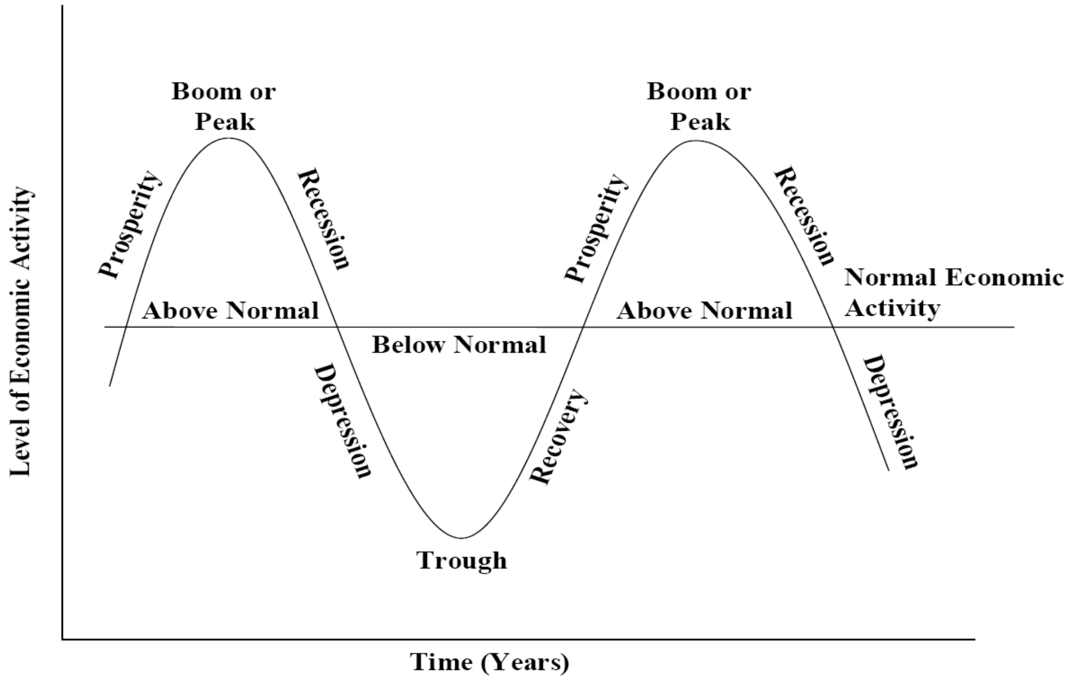
Frederic Benham defines a business cycle as a period of prosperity followed by a period of depression. It is not surprising that economic process should be irregular, trade being good at some time and bad at others."

According to *James Arther Estey*, "Cyclical Fluctuations are characterized irregular waves of expansion and contraction. They do not have a fixed rhythm, but they are cycles in that the phases of contraction and expansion happen again frequently and in fairly similar pattern."

The above definitions reveal that business cycles are the regular and frequent fluctuations in the economic activities of a country. Like, we have summers, winters, autumn, and spring as four seasons and they keep on changing, similarly trade cycles keep on moving – sometimes with expansion and sometimes with contraction.

Phases of Business Cycles

Generally, a business cycle is divided into 5 well-defined and interconnected recurring phases. These include – Prosperity, Boom or Peak, Recession, Depression & Trough, and Recovery.



Prosperity→ This stage is characterized by high level of output & trade, employment & income, wages, profits, interests, and bank credit. Business failures are very few. Thus, there is a feeling of optimism in the whole economy and business confidence is at its highest. Here the economic activities work above the normal line as shown in the figure. The stage of full employment is very often the usual goal of the national economic policies of most of the countries.

Boom or Peak→ The prosperity phase gives way to the emergence of boom or inflation. After a particular expansion, the economic activities reach its peak point where there is no scope for further development & expansion. As Business optimism stimulates further investment. Rise in investment increases pressure on available workforce and materials. Hence wages & prices rise. Number of jobs exceeds the number of workers available in the market. This situation is called overfull employment. Higher wages & prices upset the cost calculations of manufacturers and they stop further expansion of existing units which results in inflation. During inflation, the consumers go to the market with bags full of money and return home with pockets full of commodities. This is because of rocketing prices in the market. This atmosphere gives way for the succeeding stage, i.e., recession.

Recession→ Recession is a turn from boom to depression. During this period, businessmen lose their confidence. The failure of some business houses discourages fresh investments and stops business expansion. Bank loans are withdrawn. Due to decline in production, workers are laid off which results in widespread unemployment. The increase in unemployment further depresses the economy by bringing down the income, expenditure, prices and profits. Thus, in a recession there is feeling of panic all round. Thus, in brief, recession is the intervening phase between the boom and depression.

Depression and Trough→ This is the phase where the economic activities slide down from their normal level as shown in the figure. Everything goes on the negative side. There is a complete depression overall. The prices fall, volume of production & trade is falling. Unemployment is very high and the firms are incurring losses. Interest, wages and rent are all falling. Stock market crashes. The weaker firms are forced to move out of the industry. There is no opportunity to invest. Decline keeps on continuing and the economic activities come to a halt and reach the 'Trough'.

Recovery→ So after touching the lowest point i.e., Trough of economic activities, the recover phase starts as a result of monetary & fiscal measures. There is recovery of business & economic activity. Firms think of redesigning their policies and systems by going for innovations. By going for additional investments things start working in favor of the firm. It is because of low prices, low wage rates and low bank rates. Consumers also don't expect any further decline in the prices of the products. This induces firms to increase their production and hence increase in profits. The level of prices, production, employment and income slowly and steadily rises. The stock market becomes active. Bank loans start increasing because of their low interest rates. Increased business result in increased expenditure which causes further increase in income and business activity which, in turn, result in further increased expenditure and so on. The life of this phase is again upto the normal growth line, i.e., it moves upward upto the normal growth line.

Again after this, the first phase begins, i.e., the expansion phase begins and the cycle repeats again and again.

Causes of Business Cycles

Various causes that lead to business cycles are below:

Expansion & Contraction of loans by Banks→ A change in the bank credit may invite business cycles. When bank expand credit, it may lead to prosperity phase. On the other hand, when banks contract credit, it may lead to depression sooner or later.

Gap between Demand & Supply→ Demand & supply of goods & services play an important role in giving birth to business cycles. If the demand for goods & services is more than their supply, it causes prosperity. While, if supply of goods & services is more than their demand, it causes depression.

Innovation→ Development of new technologies of production affects the level of production, employment and income. It leads to the phase of prosperity. If there is lack of innovation, it may lead to the phase of depression.

Feelings of Entrepreneurs→ This is an important cause of business cycles. If the entrepreneurs are optimistic and hopeful, it will lead to the phase of prosperity. While, if entrepreneurs are pessimistic and frustrated, it will lead to the phase of depression.

Seasonal Fluctuations→ Seasonal fluctuations affect agricultural production to a large extent which, in turn, causes business cycles.

Other Factors→ Trade cycles are also caused by other external factors such as wars, revolutions, rate of growth of population, natural calamities, etc.

5.8 NATIONAL INCOME

National income is the money value of all the goods & services produced by a country during a period of one year. In other words, national income is defined as the sum total of factor incomes, viz., rent, wages, interest and profit accruing to the normal residents of a country for their productive activities during a definite period of time.

Since goods are measured in different physical units, it is not possible to add them together. Thus, we cannot state national income is so many millions of meters of cloth, so many million liters of milk, etc. Therefore, there is no way except to reduce the total production to a common measure, i.e., money. The value of all goods & services produced is measured in terms of money to determine national income.

According to ***Shapiro***, "National income is the sum total of wages, rent, interest and profit or sum of all the goods & services produced by the normal residents of a country in one year."

According to ***Kuznets***, "National income is the sum total of the market value of final goods & services produced by the normal residents of a country in one year."

National Product is another term synonymous to national income. When we express the result of economic activities as the sum total of the market value of final goods & services produced in a country in one year is also known as national product.

Basic Concepts in National Income

***Gross Domestic Product* (GDP)**→ Gross Domestic Product is the money value of all final good & services produced in the domestic territory of county during an accounting year. Domestic territory is defined to include the following:

1. Territory lying within the political frontiers, including territorial waters of the country.
2. Ships and aircrafts operated by the residents of the country between two or more countries.
3. Fishing vessels, oil and natural gas rigs, and floating platforms operated by the residents of the country in the international waters.

GDP at Constant Prices & at Current Prices

If the domestic product is estimated on the basis of the prevailing prices, it is called gross domestic product at current prices. Thus, when we say that GDP of India at current prices in 2008-09 was Rs. 19,12,383 crores, we measuring GDP on the basis of the prices prevailing in 2008-09.

On the other hand, if GDP is measured on the basis of some fixed prices, that is prices prevailing at a point of time or in some base year, it is known as GDP at constant prices of real gross domestic product. Thus, when we say that GDP in 2008-09 is Rs. 10,81,834 crores at 1993-94 prices, we are measuring GDP on the basis of the prices prevailing in 1993-94.

Net Domestic Product **(NDP)→** While calculating GDP, no provision is made for depreciation allowance. In such a situation, GDP will not reveal complete flow of goods & services through various sectors. It is matter of common knowledge that capital goods like machines, equipment, tools, buildings, etc., get depreciated during the process of production. After some time such capital goods need replacement. A part of capital is, therefore, set aside in the form of deprecation allowance. When depreciation allowance is subtracted from GDP, we get net domestic product (NDP). Symbolically, NDP = GDP – Deprecation.

Gross National Product **(GNP)→** Gross National Product is defined as the sum of the gross domestic product and net factor incomes from abroad. Thus, in order to estimate the gross national product of India, we have to add net factor income from abroad, i.e., income earned by Indian residents abroad minus income earned by non-residents in India to form the Gross Domestic Product of India. Symbolically, GNP = GDP + NFIA, where NFIA is the net factor income form abroad.

Net National Product **(NNP)→** It can be derived by subtracting depreciation allowance from GNP. It can also be found out by adding the net factor income from abroad to the NDP. Symbolically, NNP = NDP + NFIA.

Importance of National Income

1. National income data provide the picture of national expenditure as to how national expenditure is divided between consumption and investment.
2. National income data are useful in giving a correct sense of proportion about the structure of economy. The structure of the economy can be studied with the help of the input-output income data for different sectors of the economy.
3. National income data enable us to know the income distribution pattern in a country.
4. National income data enable us to know the roles played by the private and public sectors in an economy. And it will be possible to compare their performances.
5. National income data can provide the basis for economic planning in a country. No planning is possible without studying the trend of national income.
6. With the help of real national income data, we can compare the living standards of population in different countries.
7. National income data are of vital importance for the study of income distribution, poverty, productivity and the like.

5.9 METHODS OF MEASUREMENT OF NATIONAL INCOME

Value Added Method (Product Method)

This method measures the value of goods & services produced. It measures the contribution of each producing enterprise in the domestic territory of the country. This method involves the following steps;

a) Identifying the producing enterprises and classifying them into industrial sectors according to their activities.

b) Estimating net value added by each producing enterprise as well as each industrial sector and adding up the net value added by all the sectors.

All the producing enterprises are broadly classified into three main sectors namely:

1) Primary sector which includes agriculture and related activities.
2) Secondary sector which includes manufacturing units.
3) Tertiary sector which include services like banking, insurance, transport and communication, trade and profession.

Income Method

According to income method, national income is estimated by adding incomes earned by all the factors of production for their factor services during a year. In this, factor income is the sum total of payments received by all the factors of production, namely, land, labor, capital and entrepreneur, for their services in the domestic territory of a country during a year. In other words, domestic factor income is the factor income generated within the domestic territory of a country during a year.

Different factors of production pool their services for carrying out production activities. These factors of production, in return, are paid for their services in the form of factor incomes. Thus, labor gets wages, land gets rent, capital gets interest and entrepreneur gets profits. In other words, whatever is produced by a producing unit is distributed among the factors of production for their services and aggregate of factor incomes of all the factors of production of all the producing units form the subject-matter of calculation of national income by income method.

Expenditure Method

According to expenditure method, the national income is the sum total of all the final expenditures on various goods & services, within the domestic territory of a country, during a year. Various sectors like household, business, and government sector either spend their incomes on consumer or capital goods & services.

Expenditure on final goods & services is broadly classified into

- Expenditure on consumer goods & services (also called consumption expenditure).
- Expenditure on capital goods (also called investment expenditure).

Consumption expenditure is classified into:

- Private consumption expenditure of the household sector.
- Government consumption expenditure.

Investment expenditure is classified into:

- Private investment expenditure by business sector.
- Investment expenditure by government.

5.10 NATURE AND CHARACTERISTICS OF INDIAN ECONOMY

Indian economy is a developing economy in which Agriculture is the back bone of Indian economic. 60% of India's population are on the below poverty line. Majority of the people of India are leading a poverty line. Indian economic is affected by it. Countries which are on the part of progress and which have their potential for development are called developing economic. So India is termed as developing economic by modern views. The Economy of India is the tenth-largest in the world by nominal GDP and the third- largest by purchasing power parity (PPP). The country is one of the G-20 major economies, a member of BRICS and a developing economy among the top 20 global traders according to the WTO.

Features of Indian Economy

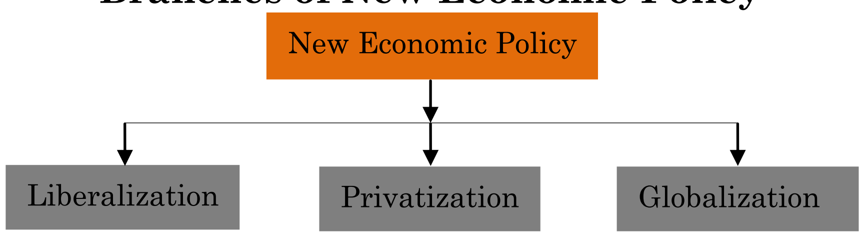
1. Since independence India has been a 'mixed economy'. India's large public sectors were responsible for providing employment and revenue to the economy.
2. India's share in global exports and imports increased from 0.7% and 0.8% respectively in 2000 to 1.7% and 2.5% in 2012 as per the WTO estimates.
3. Indian economy overview was highly inspired by Soviet Union's practices post-independence. It had been recording growth rate not greater than five jumped till 1980s. This stagnant growth was termed by many economists as 'Hindu Growth Rate'.
4. In 1992, the country ushered into liberalization regime. Thereafter, the economy started scaling upward. This new trend in growth was called 'New Hindu Growth Rate'.
5. India's diverse economy encompasses traditional village farming, modern agriculture, handicrafts, a wide range of modern industries and a multitude of services.
6. Services are the major source of economic growth, accounting for more than half of India's output with less than one third of its labour force.

Sectors of Indian Economy

Primary Sector: When the economic activity depends mainly on exploitation of natural resources then that activity comes under the primary sector. Agriculture and agriculture related activities are the primary sectors of economy.
Secondary Sector: When the main activity involves manufacturing then it is the secondary sector. All industrial production where physical goods are produced come under the secondary sector.
Tertiary Sector: When the activity involves providing intangible goods like services then this is part of the tertiary sector. Financial services, management consultancy, telephony and IT are examples of service sector.

5.11 CONCEPTS OF LPG

Branches of New Economic Policy



Concept of Liberalization

NIP' 1991 the Indian Government aimed at integrating the country's economy with the world economy, improving the efficiency and productivity of the public sector. For attaining this objective, existing government regulations and restrictions on industry were removed. The major aspects of liberalization in India were ;
Abolition of Licensing: NIP' 1991 abolished licensing for most industries except 6 industries of strategic significance. They include alcohol, cigarettes, industrial explosives, defense products, drugs and pharmaceuticals, hazardous chemicals and certain others reserved for the public sector. This would encourage setting up of new industries and shift focus to productive activities.
Liberalization of Foreign Investment: While earlier prior approval was required by foreign companies, now automatic approvals were given for Foreign Direct Investment (FDI) to flow

into the country. A list of high-priority and investment-intensive industries were delicensed and could invite up to 100% FDI including sectors such as hotel and tourism, infrastructure, software development, etc. Use of foreign brand name or trade mark was permitted for sale of goods.

Relaxation of Locational Restrictions: There was no requirement anymore for obtaining approval from the Central Government for setting up industries anywhere in the country except those specified under compulsory licensing or in cities with population exceeding1 million. Polluting industries were required to be located 25 kms away from the city peripheries if the city population was greater than 1 million. 160

Liberalization of Foreign Technology Imports: In projects where imported capital goods are required, automatic license would be given for foreign technology imports up to 2 million US dollars. No permissions would be required for hiring foreign technicians and foreign testing of indigenously developed technologies.

Phased Manufacturing Programmes: Under PMP any enterprise had to progressively substitute imported inputs, components with domestically produced inputs under local content policy. However NIP'1991 abolished PMP for all industrial enterprises. Foreign Investment Promotion Board (FIPB) was set up to speed up approval for foreign investment proposals.

Public Sector Reforms: Greater autonomy was given to the PSUs (Public Sector Units) through the MOUs (Memorandum of Understanding) restricting interference of the government officials and allowing their managements greater freedom in decision-making.

MRTP Act: The Industrial Policy 1991 restructured the Monopolies and Restrictive Trade Practises Act. Regulations relating to concentration of economic power, pre-entry restrictions for setting up new enterprises, expansion of existing businesses, mergers and acquisitions .etc. have been abolished

Concept of Privatization

The main aspects of privatization in India are as follows;

Autonomy to Public Sector: Greater autonomy was granted to nine PSUs referred to as *navaratnas* (ONGC, HPCL, BPCL, VSNL, BHEL) to take their own decisions.

Dereservation of Public Sector: The number of industries reserved for the public sector were reduced in a phased manner from 17 to 8 and then to only 3 including Railways, Atomic energy, Specified minerals. This has opened more areas of investment for the private sector and increased competition for the public sector forcing greater accountability and efficiency.

Disinvestment Policies: Till 1999-2000 disinvestment was done basically through sale of minority shares but since then the government has undertaken strategic sale of it's equity to the private sector handing over complete management control such as in the case of VSNL, BALCO, etc.

Concept of Globalization

The phenomenon of globalization caught momentum in India in 1990s with reforms in all the sectors of the economy. The main elements of globalization were;

- To open the domestic markets for inflow of foreign goods, India reduced customs duties on imports. The general customs duty on most goods was reduced to only 10% and import licensing has been almost abolished. Tariff barriers have also been slashed significantly to encourage trade volume to rise in keeping with the World trade Organization (WTO) order under (GATT) General Agreement on Tariff and Trade.
- The amount of foreign capital in a country is a good indicator of globalization and growth. The FDI policy of the GOI encouraged the inflow of fresh foreign capital by

allowing 100 % foreign equity in certain projects under the automatic route. NRIs and OCBs (Overseas Corporate Bodies) may invest up to 100 % capital with repatriability in high priority industries. MNCs and TNCs were encouraged to establish themselves in Indian markets and were given a level playing field to compete with Indian enterprises.

- Foreign Exchange Regulation Act (FERA) was liberalized in 1993 and later Foreign Exchange Management Act (FEMA) 1999 was passed to enable foreign currency transactions.
- India signed many agreements with the WTO affirming it's commitment to liberalize trade such as TRIPs (Trade Related Intellectual Property Rights), TRIMs (Trade Related Investment Measures) and AOA (Agreement on Agriculture).