A contrary view on Indian Economic Crisis of 1991

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Abstract:
India was passing through difficult times on various fronts like Economic, Political and External sector in late 1980's. Rupee was pegged with a basket of currencies and exchange rate of rupee with foreign currencies was highly regulated by RBI. Rupee was devaluated several times on the guidelines of IMF in 1990 and 1991. As it was always earlier, India's current account balance was negative and country was facing Balance of Payment difficulties in 1991. India's foreign exchange reserves had depleted and IMF and world community was not willing to help India unless it brings in economic reforms. This situation though emerged in few months; economists consider various factors responsible for the situation, which were results of policies of government and chronological events occurred for several years. In this paper author will review the available literature and will present his contrary view on the said economic crisis.

Keywords: *Balance of Payment, Causes of Currency crisis of 1991, Foreign Exchange Reserves, India USSR relations, India's Foreign Trade, Gulf Crisis.*

1. Introduction:

India's economic crisis of 1991 was mainly because of Balance of Payment difficulties, which was a result of scarce foreign exchange reserves for making payments.

Across the literature this crisis is attributed to various things like, higher Fiscal Deficit, higher debt component, higher interest rates, higher inflation, devaluation of Rupee, Invasion of Kuwait by Iraq, USA's invasion in Iraq, resultant rise in oil prices, political instability in communist economies, political instability in India etc. India had lesser need of hard currencies because of rupee payment terms with Eastern European Countries and USSR. India USSR trade significantly rose post 1975. Less attention was payed towards reserves of other hard currencies and there were increase in imports from western countries and as a result foreign exchange reserves depleted in 1980s.

In 1991, situation was such that India had to pledge Gold reserves for raising foreign exchange. India had devaluate rupee and had to amend economic policies as terms and conditions to get funding from IMF. In this paper our attempt is to study possible reasons for such disgraceful situation and could it have been avoided.

2. Literature Review:

Ahluwalia in his paper talked about economic reforms in India post 1991, but still it gives it his opinion about crisis and probable events pre 1991. He is of opinion that changes in policies was required much earlier. Many Asian countries in Asia achieved high growth and poverty reduction through improving policies to promote Private sector and exports. India took steps for modernization of economy in 1980, but no significant steps were taken until economic policy of 1991 (Ahluwalia, 2002).

Cerra & Sweta have tried to find out what caused currency crisis of 1991 in India. They observed that rupee appreciates with improvement in trade, technological progress, and a relaxation of capital controls and real exchange rate depreciates when government spending (on tradable goods) increases, the economy opens up and investment increases. They are of opinion that the current account deficits played a significant role in the crisis. They also concluded that sentiments of investors, excessive debt and debt servicing also led to currency crisis (Cerra & Sweta, 2002).

Ghosh discussed about crisis of 1991 and reforms thereafter and tried to touch on possible reasons of currency crisis of 1991. He also discussed about funding from IMF, conditions put by IMF, currency devaluation. He has also discussed various economic factors prevailing in 1990s and discussed various things like growth of GDP, government spending, fiscal deficit, foreign investments and implications of Gulf crisis. (Ghosh, 2006)

Singh said in his speech, "International confidence in our economy was strong until November 1989 when our Party was in office. However, due to the combined impact of political instability witnessed thereafter, the accentuation of fiscal imbalances and the Gulf crisis, there was a great weakening of international confidence. There has been a sharp decline in capital inflows through commercial borrowing and non-resident deposits. As a result, despite large borrowings from the International Monetary Fund in July 1990 and January 1991, there was a sharp reduction in our foreign exchange reserves." He said that crisis is because of internal and external uncertainties and country have never experienced anything so severe in the past. He also said that low productivity was responsible for a weak economy. He also pointed out that, fiscal deficit was 4% of GDP in mid 1970's, which increased to 6% in the beginning of 1980's to 8% of GDP in 1990-91. This fiscal deposit has to be financed by borrowing and it puts an interest burden in subsequent years. He pointed out that current account deficit was about 2 per cent of GDP for many previous years and it is estimated at 2.5 in 1990-91. This deficit is financed by loans from abroad and as a result, foreign loans have substantially increased. He also said that debt service burden is around 21 per cent of current account receipts in 1990-91. Gulf crisis has also contributed to adverse balance of payments. (Singh, 1991)

Research Questions and Research Methodology:

We have done review of literature on balance of Payment Crisis of 1991 and have arrived at following questions:

1. What were the main reasons of Payment Crisis of 1991?
2. What role political and economic uncertainties in Eastern Europe and USSR played in crisis of 1991?
3. Was weakness in Indian economy the only reason for payment crisis of 1991?

Research methodology will involve analyzing the available literature, trade, foreign exchange data and trying to present a view on the crisis and previous explanations of the said crisis.

3 Analysis and observations:

3.1 Political uncertainty in the country:

Indian Government had a policy of Socialism with government control on economy by controlling businesses by imposing license requirements and controlling prices of commodities. Government started its own enterprises and invested lot of money in Industrialization of India. Policies discouraged private investments and fair competition. Foreign capital flow was also discouraged. Importing goods was difficult by private businesses. Indian private sector has lot of potential but government discouraged it by putting control of free business. However, government initiatives contributed positively in Indian economy, but private sector could have done better than public sector.

In 1970's India USSR political and Economic relations started growing. India signed a treaty with USSR, which is also known as India USSR friendship treaty. In 1971, Pakistan attacked India and war broke out in two major countries in south Asia. Defense technology and training provided by USSR proved to be very effective. USSR backing to India in case of enemy attack on India was thought very critical by US president Richard Nixon. He considered it critical for peace in Asia from US point of view.

CIA was critically analyzing India USSR relations post 1970's. CIA released various secret documents, which are available on its website, is a proof of United States' interest in USSR-India relations. However, most of the data released look factual but there are few things, which does not have any relation with the reality in India or India-USSR relationship. India was always more inclined towards western European and North American technology, economy, politics and culture, but USSR proved to be India's best friend in its need and this trust grew over the period of time. India and USSR had rupee payment agreement for paying in balance of trade adversities. These terms of rupee payments facilitated India to acquire Russian technology related to defense, space as it was easier for making payments and this technology was cheaper than North America and Europe.

As Indian population and economy was growing, India's Petroleum/Oil needs were growing. USSR was major supplier of petroleum products in 1980's. As per CIA, in 1st half of 1980's almost 70% of imports from USSR was petroleum products (CIA, 1986).

Throughout 1980's, USSR faced economic and political turbulence. India too faced political turbulence post assassination of Mrs. Indira Gandhi. From 1988 until 1991, India had four different Prime Ministers and four different union cabinet of ministers. Mrs. Indira Gandhi had extremely good relations with politicians and bureaucracy in USSR. These relations helped country in procurement of defense equipment, technology and petroleum at favorable terms for the country. Post assassination of Mrs. Indira Gandhi, her son Rajiv Gandhi, a pilot, became Prime Minister. Prime Minister Rajiv Gandhi had to spend lot of his time strengthening his political career and his party and tried to bring in economic reforms. During his regime, India witnessed modernization, acquisition of western technology, reforms in trade, which resulted in rise in fiscal deficit and Balance of Trade.

It was during Prime Minister Rajiv Gandhi's government when army was sent as 'peace keeping force' to Sri Lanka in 1987. Army acted against interests of LTTE, who were freedom fighters in Jaffna region of Sri Lanka. His assassination was attempted in 1987, which was a failed attempt. There were issues like terrorism in Punjab, Bofors Scandal etc. These issues diverted government's attention towards noncore and lesser important issues.

In 1989 elections, congress could not get required majority to form a government. Janata Dal acquired required majority by forming national front as coalition of small parties to form government, and Mr. V P Singh became Prime Minister, but his government lasted for a little less than a year. Economic instability like slow growth, depleting foreign exchange, rising fiscal deficit, widening balance of payments gap were visible, but V P Singh Government could not take steps to handle these issues. Mr. Chandra Shekhar with his supporter left Janata Dal to form his own party and Janata Dal lost its majority. Mr. Chandra Shekhar formed a government with the support of congress in November 1990 and became prime minister, but shortly congress withdrew its support and fresh elections were called in 1991. Due to political uncertainty in the country, government was unable to concentrate in core activities as they were engaged in protecting their government. Post assassination of Indira Gandhi, no other government could have similar warmth with USSR's politicians. Due to economic and political instability in USSR, India-USSR relations were not growing as desired.

In 1991 during election campaign in Tamil Nadu, Rajiv Gandhi was assassinated. It is said that Indian Army's and Indian Government's moves against LTTE made LTTE chief Prabhakaran angry. LTTE did not want Rajiv Gandhi to form a government or to become Prime Minister again, therefore it is widely said that on the guidance of Prabhakaran LTTE assassinated Mr. Rajiv Gandhi. After elections of 1991, congress led alliance formed a government and Mr. P V Narasimha Rao became Prime Minister. P V Narasimha Rao government carried out major trade and economic reforms in the country. In these four years India had four different governments. Due to lack of majority and political uncertainties, no government was able to take concrete steps for economic reforms. These political uncertainties in the past resulted in lesser attention towards economy and making it vulnerable.

3.2 Economic Structure:

India always felt proud since its independence for maintaining its economic self reliance in many aspects. But there were fundamental flaws in the economy, like low productivity, lack of encouragement to private sector in commerce and trade, excessive government control over economy. Due to low productivity, low employment, heavy cost of capital, inferior indigenous technology, poor environment for doing business and lack of innovation, economy could not grow as it should have been grown post independence period, which made Indian economy vulnerable to external shocks.

India had a socialistic structure of economy and many businesses were run by government to meet needs of goods and services in the country. Prices were regulated so that it can serve masses with goods and services, which is the principal of socialism. Private sector was subject to strict licensing, which resulted in slow and inefficient growth of private sector. Many public sector companies could not perform well to fulfill economic interests of the nation. Government was fearful that encouragement to private sector could lead to capitalism and government may fail to serve people as desired. Doors were kept closed for foreign companies by restricting FDI. It was felt that if doors are opened for the foreign companies, Indian companies would not be able to compete with foreign companies. But after liberalization exactly opposite happened, many Indian companies in Software, Technology, Pharmaceuticals emerged as global giants and many Indian manufacturing companies could perform better than few of their global competitors post implementation of LPG model by Rao government post 1991. Most of the reforms were conditions imposed by IMF for providing future line of credit. These reforms helped India to grow economically. We strongly agree that structure of economy was not good and reforms were required. But still these economic reforms post 1991 were not sufficient to deal with future uncertainties. Some major structural changes are required with a long foresight which will protect economy from unforeseen events. Though flaws in economy is considered as factor responsible for Balance of Payment Crisis of 1991 many economists, but we are of a opinion that Crisis was not a direct result of flaws in Indian economy. Crisis could have been avoided with economic vigilance with the same economic structure.

3.3 India's Trade and Balance of Payments:

In 1980s and 1990s destination of largest India's export was USA. Significant exports was made to USSR, Japan Germany and UK after USA. USSR was facing political and economic problems throughout 1980's and these problem became severe in 1991 and USSR broke into 15 countries. As a result many rupee trading agreements were terminated. This resulted in fall of India's exports to USSR 1991-92 which kept on continuing thereafter. In 1990-91 India exported more commodities to USSR than USA. India was not prepared for international political and economic uncertainties due to inherent weakness in the economy. After fall of USSR, India had to rely on other countries for supply of necessities where payment had to be made in hard currencies. Post 1991, India witnessed steady increase in exports to UK, USA, Hong Kong, Germany etc.

Direction of Exports								*(US $ million)*
Country	**1987-88**	**1988-89**	**1989-90**	**1990-91**	**1991-92**	**1992-93**	**1993-94**	**1994-95**
U S A	2,252.10	2,574.00	2,686.20	2,673.20	2,921.10	3,515.90	3,998.50	5,020.70

U S S R / Russia	1,513.70	1,801.80	2,678.00	2,928.60	1,640.00	607.2	794	901.2
Japan	1,244.50	1,487.70	1,638.90	1,693.70	1,651.50	1,436.50	1,740.90	2,026.60
Germany	816.8	853.7	1,064.00	1,420.50	1,269.90	1,427.00	1,539.20	1,747.70
U K	783.1	796.3	961.1	1,185.70	1,138.10	1,213.40	1,379.10	1,689.70
Belgium	373.7	611.4	723	701.9	666.9	683.4	843	988.4
Hong Kong	344	564.5	537.3	596.5	614.3	765	1,249.60	1,517.40
France	292.4	295.1	383.4	427.1	425.5	471.5	504.4	582.1
U A E	238.8	293.4	426.5	438.9	738.5	814.3	1,157.90	1,265.90
Saudi Arabia	214.2	223.4	257.6	233.2	351.3	407.5	510.8	435.7
Singapore	210.5	222.6	280.1	379.4	388.8	588.5	752	770.3
South Korea	112.4	126.3	160.9	182.7	238.7	174.9	206.4	332.4
Iran	107.4	61.7	79.4	78.5	122.5	114.4	159.7	156.8
Kuwait	81.8	99.4	118.9	41.1	52.3	108.3	106	133.9
Malaysia	69.6	90.9	105.8	151	202.4	189.8	247.3	286.6
Iraq	13.5	36.5	75.2	24.2	-	5.9	3.9	0.2
Total Trade	**12,088.50**	**13,970.40**	**16,612.50**	**18,145.20**	**17,865.80**	**18,537.20**	**22,238.30**	**26,330.50**
Note: Exports of Petroleum Products are taken into account in total exports, but are not included in country-wise details.								

Table 1 - *Direction of Exports by Countries* (RBI, 2017)

In 1980's major destinations of India's export were Germany, Japan, USA and USSR. Post fall of USSR in 1991, imports from USSR started reducing. USSR was major supplier of Defence Technology and Oil to India and payment were made in convenient rupee terms. India saw significant rise in imports from Saudi Arabia, UAE and Iran post 1991 due to a combined effect to Gulf War, Oil Price rise. Shock of Gulf War and Oil Price rise became severe because of rupee devaluation. All these payments for oil imports were to be made in hard currency. Post gulf was there was steady rise in imports from Kuwait. By mid-1990's trade started shifting southwards. India witnessed Trade deficit throughout in 1980's and problem became serious because of eroded forex reserves and loss of rupee trading partners.

Direction of Imports								***(US $ million)***
Country	**1987-88**	**1988-89**	**1989-90**	**1990-91**	**1991-92**	**1992-93**	**1993-94**	**1994-95**
Germany	1,664.90	1,697.10	1,673.50	1,935.60	1,559.40	1,656.90	1,790.30	2,187.00
Japan	1,639.80	1,816.70	1,692.20	1,808.30	1,369.30	1,427.90	1,522.10	2,039.90
U S A	1,543.80	2,236.80	2,561.20	2,923.00	1,994.70	2,147.40	2,736.70	2,905.70
U K	1,410.20	1,655.90	1,782.60	1,612.80	1,201.90	1,417.40	1,536.10	1,559.10
U S S R / Russia	1,240.00	868.6	1,223.40	1,420.10	728.5	254.6	380.4	749.2
Belgium	1,057.10	1,418.90	1,619.80	1,514.60	1,388.00	1,826.80	1,874.80	1,206.70
Malaysia	648.3	549.5	390.7	554.8	394.3	405.9	249.9	490.1
France	615.1	556.4	967	727	614.8	594.7	593.1	615.6
Saudi Arabia	590.4	1,307.30	866.9	1,615.80	1,442.50	1,496.00	1,541.70	1,569.60
U A E	588.4	601.5	857	1,059.10	1,247.50	1,111.70	1,003.10	1,533.10
Iraq	471.5	134.1	277.1	276.2	2.5	0	0	0
Kuwait	363.7	359.8	696.9	202.3	304.7	954.1	1,126.20	1,480.20
Singapore	323.4	428.9	539.9	795.7	694.7	632.1	626.9	899.7
South Korea	257	318.1	342.2	366.1	319.3	355.1	564.5	629.5
Iran	111.1	89.2	233.8	567.1	582	397.7	379.5	536.5
Hong Kong	92.6	121	149.1	165.6	106.2	170.4	188.7	287
Total Trade	**17,155.70**	**19,497.20**	**21,219.20**	**24,072.50**	**19,410.90**	**21,881.60**	**23,306.20**	**28,654.40**

Table 2 - *Direction of Imports by Countries* (RBI, 2017)

Since independence of India, India's Balance of Payment was always negative with few exceptions. Adverse balance of payments was most of the time because of adverse Balance of trade. India always imported more commodities than it exported. Low efficiency, inferior indigenous technology, labour intensive industries, excessive government regulations of business, overall bad environment for business led to reduced productivity and economy remained a deficit economy. For getting commodities people had be in queues. For buying many commodities and service like scooter, car, telephone etc. there used to be long waiting time of months and years. India is the largest producer of almost all oil seeds in the world. Still it had to import edible oil. This deficit economy had to rely on imports. Modernisation attempts by the government in 1980's resulted in more imports from the western countries. Trade deficit kept on rising and its cumulative effect was visible as crisis in 1991.

India's Balance of Payments in USD

(US $ million)

Item/ Year	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95
1	2	3	4	5	6	7	8	9
I. Merchandise								
A) Exports, f.o.b.	12644	14257	16955	18477	18266	18869	22683	26855
B) Imports, c.i.f.	19812	23618	24411	27914	21064	24316	26739	35904
Trade balance (A-B)	**-7168**	**-9361**	**-7456**	**-9437**	**-2798**	**-5447**	**-4056**	**-9049**
II. Invisibles, net	**2316**	**1364**	**615**	**-242**	**1620**	**1921**	**2897**	**5680**
III. Current account (I+II)	**-4852**	**-7997**	**-6841**	**-9680**	**-1178**	**-3526**	**-1159**	**-3369**
IV. Capital account (A to F)	**5047**	**8064**	**6977**	**7188**	**3777**	**2936**	**9694**	**9156**
A) Foreign Investment	434	357	410	103	133	557	4233	4922
B) External assistance, net	2271	2216	1856	2210	3039	1859	1901	1526
C) Commercial borrowings, net	976	1894	1777	2248	1456	-358	608	1030
D) Rupee debt service	-	-	-	-1193	-1240	-878	-1054	-983
E) NRI deposits, net	1419	2510	2403	1536	290	2001	1207	172
F) Other capital	-53	1087	531	2284	101	-245	2800	2489
V. Overall balance (III+IV)	**195**	**68**	**136**	**-2492**	**2599**	**-590**	**8535**	**5787**
VI. Monetary movements (VII+VIII+IX)	**-195**	**-68**	**-136**	**2492**	**-2599**	**590**	**-8535**	**-5787**
VII. Reserves (increase -/ decrease +)	737	1001	740	1278	-3384	-698	-8723	-4644
VIII. IMF, net	-932	-1069	-876	1214	785	1288	188	-1143
IX. SDR allocation	-	-	-	-	-	-	-	-

Notes : Capital account includes Errors and omissions.

Table 3 - *India's Balance of Payments* (RBI, 2017)

3.4 Instability in USSR and Communist countries:

India and USSR entered in treaty of Peace, Friendship and Cooperation in 1971. In 1971, Pakistan attacked India and in response India invaded East and West Pakistan. On the request of Prime Minister Indira Gandhi, USSR decided to support India and sent its ships in Indian ocean to deal with the navy fleet which was sent by USA in Indian ocean. USSR proved India's true friend in its need. But when USSR invaded Afghanistan, India was did not want to enter the war to maintain its non-aligned status. However India and USSR relations kept on growing till resignation of Mikhail Gorbachev from the post General Secretary of the Communist Party of the Soviet Union in December 1991 (Sachdeva).

India had Rupee Trading arrangements with several countries in Eastern Europe and USSR. In 1980 almost 22% of India's total exports were made to East Europe which remains high till end of 1991. Imports of capital goods and defense equipment were financed by long-term trade credits. India's critical needs like Defense Equipment, Technology, Petroleum Products, space technology etc. were met by USSR where payment was to be made in convenient rupee ruble terms. After dissolution of the USSR, many rupee-trading terms were ended in 1990-91. Rupee trade terms with German Democratic Republic and Poland ended in December 1990 January 1991 respectively. Political uncertainties in USSR kept its leaders worried in 1980's and in late 1980's and 1990 onwards. Main objective of USSR was to bring down fiscal deficit and improve its economy. This resulted in steep fall in trade between India and USSR. In addition, as USSR broke into 15 countries in 1992, India's trade with Eastern Europe and Russia significantly dropped (Virmani, 2001). As discussed above, CIA believes that major import by India from USSR was Crude Oil and Petroleum Products in second half of 1980's (CIA, 1986). India imported 23% of oil needs from USSR in 1984-85, whereas its composition was 17% in 1985-86 and 17% in 1989-90 respectively in India's total oil imports (Nandy, 2015). Oil prices crashed after 1985 and Soviet Union suffered due to this. After fall of USSR, sudden drop of trade with Russia in 1992 can be observed. India could have imported Petroleum Products from Russia, with whom it had comfortable rupee trading terms, if USSR would have survived or if economic conditions were good in newly formed Russia. Thus, political and economic disruption in Eastern Europe and USSR gave major blow to India's external sector and in turn Indian Economy as a whole (Secretariat, 2013). As India had rupee trading terms with Eastern Europe, it did not bother much about foreign exchange reserves. India's liberalization of imports in late 1980's resulted into heavy rise in imports with slow growth in exports, which resulted in exchange crisis. If USSR would not have faced economic and political challenges, India would not have faced balance of Payment crisis in 1991. It is a lesson for India, that excessive dependence on one or two major trading partners can lead to uncertainties. It's better to have more number of reliable trade partners with sound economies.

Composition of India's Trade with USSR in 1970 and 1985:

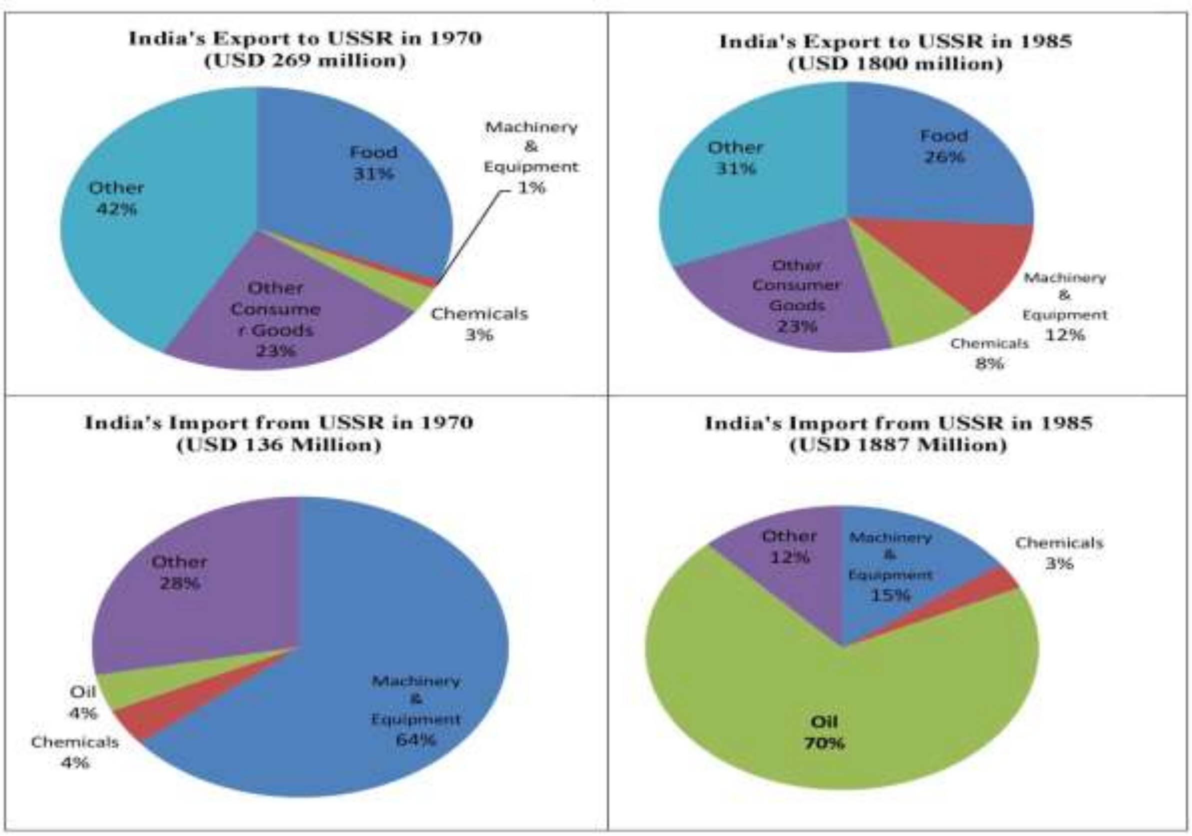

Figure 1 - *Composition of India's Imports* (CIA, 1986)

3.5 Gulf Crisis:

Political Instability in the gulf was visible since the beginning of 1980. Iraq invaded Iran in September 1980. OPEC countries were restricting production of Oil in early 1980's as a result during 1980 and 1981 oil prices were high (Reynolds & Kolodziej, 2006). Post 1985 oil prices started reducing as OPEC countries started increasing production, but north European countries and Soviet Union suffered a lot due to reduced oil prices and these reduced oil prices caused economic disruption in USSR and it broke into pieces without fighting a war (Gaidar, 2007). India should have increased imports of petroleum and oil products from USSR even at significant premium prices to international oil prices. This was possible with government intervention as Oil and Gas industry was dominantly controlled by government companies. This could have been a win-win situation for USSR and India. Iraq invaded Kuwait in 1990 due to old enmity and to increase its territories and access to oil reserves. Gulf war led to slight increase in oil prices and jump in oil imports in 1990 and 1991. Factors like, stopped supply of oil from Iraq and Kuwait, fall of Soviet Union, widened gap of Balance of Payments, Low Foreign Currency Assets made situation critical and was felt even worst in the country with the devaluated rupee. Widely described reason of Balance of Payments Crisis of 1991 is Gulf war and rise in oil prices. But, rise in oil price was not very high after gulf war broke out. If, India would have worked on economic intelligence / vigilance it could have predicted changes or could have simulated situations to study possible future impact of global political and economic changes on Indian economy.

3.6 Balance of Payment Crisis of 1991:

Indian companies had taken short-term external loans at lower rates. With fluctuations in interest rates and devaluation of rupee, higher amount was payable to service debt. In 1991 current account deficit was 3.1 % of GDP, fiscal deficit was high and there was higher inflation in the economy. (Reddy, 2006)

Several Credit rating agencies downgraded India's credit rating (Taneja & Thakijrta, 1990). S&P downgraded India's sovereign rating to junk status in May 1991 (Johnson, 2007). Because of this, generating more loans became very difficult. When attempts were made to raise foreign exchange from International Monetary Fund, they insisted on changing economic policies and were not initially ready to provide sufficient assistance without economic reforms, whereas other international financial institutions and banks were not willing to lend to India because of its low credit rating. 1991 witnessed lowest foreign investor confidence and foreign investments were lowest in 1991. Deposits kept by Non Resident Indians suddenly started moving out of country in March 1991 from India. Non Resident Indians were losing confidence on India because of the media coverages on Falling Forex Reserves, Rising Fiscal Deficit, high inflation and so these deposits started moving out of country in 1991, contributing to further reduction of foreign Currency Assets.

As per Dr. Y. V. Reddy economic crisis could have been anticipated much earlier as a result of depleting foreign exchange reserves from USD 3.1 billion in August 1990 to USD .98 billion in July 1991. Country witnessed constant fall in foreign exchange reserves for a longer period and problem became serious when foreign exchange reserves came down below 1 billion dollars. Country had only few week's import cover available in 1991 (Reddy, 2006).

Foreign Exchange Reserves in Selected Countries

(USD billion)

	1990	1991	1992	1993	1994	1995	1996
India	1.21	3.58	5.46	9.81	19.39	17.47	197.42
China	28.59	42.66	19.44	21.20	51.62	73.58	98.85
Indonesia	7.35	9.15	10.18	10.99	11.82	13.31	15.06
Malaysia	9.33	10.42	16.78	26.81	24.89	22.95	25.21

South Korea	14.46	13.31	16.64	19.70	25.03	31.93	32.32
Thailand	13.25	17.29	20.01	24.08	28.88	35.46	38.03
Taiwan	35.79	40.28	43.53	44.30	43.38	40.87	40.10
Import Cover in Months							
India	0.6	2.1	2.8	5.2	8.7	6.1	6.7
China	6.5	8.2	3.1	2.5	5.4	6.8	9.2
Indonesia	4	4.2	4.5	4.7	4.4	3.9	4.4
Malaysia	3.8	3.4	5.1	7	5	3.5	3.9
South Korea	2.5	2	2.4	2.8	2.9	2.8	2.9
Thailand	4.8	5.5	5.9	6.3	6.4	6	6.5
Taiwan	7.8	7.7	7.2	6.9	6.1	4.7	4.6

Table 4 - *Foreign Exchange Reserves* (Ministry of Finance, 1997)

As per above table originally prepared by IMF and republished by Ministry of Finance in 'Economic Survey of India', India's foreign Exchange reserves were only USD 1205 million in 1990 and was USD 3580 million in 1991. These Foreign Exchange Reserves are only sufficient for making payments of 0.6 months of imports and 2.1months of imports in 1990 and 1991 respectively. Whereas if we observe foreign exchange reserves of other Asian countries, it was much higher than that of India and these countries also had higher import cover. If we observe smaller Asian countries other than china, they had much higher foreign exchange reserves.

4. We can conclude that following were few important reasons for Economic Crisis of 1991:

We observed, fall in imports from USSR from 1987-88 till 1999-89 and thereafter steep fall in imports from USSR post 1991 and newly formed Russia. Thereafter further fall of exports to USSR post 1990-91 and steep decline in exports to newly formed Russia. As per CIA USSR was one of the important exporter of Oil and defense equipment to India. Heavy fiscal deficit, economic crisis and Political instability in USSR during 1980's led to fall of USSR in 1991. Excessive dependence on few trading partners like Germany and USSR for exports and imports of necessary commodities and thereafter fall of USSR and merger of GDR into Germany distorted rupee trade with these countries, which resulted in need of hard currency for import of similar commodities. This contributed in fall of forex reserves.

Balance of Payment adversities was a constant phenomenon in Indian economy. Balance of Payment adversities were dominated by adverse Balance of Trade and adverse balance of trade was because of inefficiency o the economy and excessive government regulations for domestic business. Rise in Oil Prices due to Gulf War and Devaluation of Rupee several times resulted in costlier imports and ultimately high inflation. Political and Economic Crisis of USSR of late 1980's and its severity at the beginning of 1990's and thereafter fall of USSR can cancellation of rupee trading agreements, resulting in reduced supply of Oil from USSR. There was a combined effect to Devaluation of Rupee, Rise in Oil Prices and economic and political crisis in USSR on heavy jump in Import Bill in 1991.

Country failed to maintain sufficient FCA's for facing external jolts. When smaller jolts caused a balance of Payment Crisis for the nation, what bigger jolts could have done? If we compare today's economic condition of India with 1980's, there was nothing seriously wrong with the economy. Economy was growing post 1980's much above so called 'Hindu Growth Rate' (Bhagwati, 1993) (Panagariya, 2004). Economic reforms were started in 1980's, though they were slow. There was import liberalization, which resulted in jump in imports in 1980's. Erosion of foreign exchange reserves was an effect of continuous negative balance of trade.

Government took measures to liberalize trade in 1980's, which resulted into heavy imports and ultimately higher Balance of Trade deficit. Before liberalizing trading barriers, environment should have made friendlier for private businesses to grow. If government would have done it in 1970's and 1980's, then at the time 'liberalization of trade policies' country would have excess quantity of cheap and quality goods for exports which would have worked as import deterrent / substitution measure. India is a largest producer and exporter of oil seeds in the world. Capacities should have been built for production of edible oil on mass scale by providing incentives, which could have curbed imports of edible oil and in place of importing edible oil, India could have exported edible oil on a large scale. Several cheap and quality manufactured goods could have been exported post domestic economic reforms which could have helped post trade liberalization to correct the Balance of Trade.

Economy was structurally weak in 1980's to meet foreign economic jolts. LPG model was brought in by Prime Minister P V Narasimha Rao, which worked as deterrence against Balance of Trade problem. But still structurally economy is not very strong and still it remains vulnerable for unforeseen jolts. Reforms were undertaken to deal with the ongoing payment crisis and to improve many aspects of the economy. Nevertheless, still today economy is not strong enough to deal with major economic disruptions in the world, even with Foreign Currency Assets touching 400 billion dollars.

Gulf war and in anticipation of problems with Indian economy, NRI deposits had eroded in 1991. Foreign Investment was low as country's credit rating was lowered and due to licensing requirements and overall absence of ease of doing business for the private sector. Due to low ratings it was very difficult to raise funds to finance payment crisis. These two factors restricted growth in Foreign Currency Assets.

Due to instability, Chandra Shekhar government could not take alternative measures to increase Foreign Currency Assets. Ultimately, Government had to agree on advice of RBI to pledge country's gold to foreign banks so that Foreign Exchange can be arranged for facilitating payments.

Foreign Currency Asset depletion was a cumulative effect of rising Balance of Payments in 1980’s. Situation did not arise as a result of a short term flaws in the economy. It was a cumulative effect of political instability, economic reforms of 1980’s, import liberalisation in late 1980’s. There were not only internal weaknesses of economy like low productivity, inflation, fiscal deficit that were responsible for payment crisis of 1991 but there were substantial international political and economic factors which gave jolts and are responsible for balance of payment crisis of 1991.

After studying the crisis it gives a feeling that India could not predict or have not taken efforts to predict factors like, probable fall of communist economies, OPEC Policies, changing commodity prices, economic problems in USSR, unification of GDR into Germany, Gulf politics and internal economic inefficiency. India failed in its economic intelligence / vigilance and as a result, it had to pay huge price in terms of exchange rate devaluation and altering economic and trade policies on the directions of IMF. Reforms were required in Indian economy, but they should have come from within and not as a step to satisfy conditionality to fight crisis. India could have started with better reforms much earlier for a balanced growth. We strongly believe that India could have avoided a regretful situation of pledging of country’s gold and also could have avoided devaluation of rupee in 1991 with economic vigilance.

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