

## **ABSTRACT**

### ***The flying elephant. Evolution and future scenarios of India's political economy***

India's extraordinary and unexpected economic growth in recent years has been one of the most significant achievements of the past century. Although it would be hard, even today, to include it among the rich countries due to the strong social inequalities and the high rate of poverty that still plague almost five hundred million people, it is undeniable how India managed to become one of the greatest service provider in strategic fields such as information technology, medical and scientific research, software implementation or nuclear tests, eventually playing a leading role in the developed and globalized world of today.

The main purpose of this dissertation is to retrace the stages of India's economic growth, analyzing its evolution through three perspectives along the different phases of its development. To fully understand today's India it is necessary to inquire into its past history, as several factors that have ensured the booming economy and most of the problematic issues still present today are none but the result of specific politics and peculiar economic choices made from the fifties onwards.

The first chapter covers the first three decades after the Independence, when the country was still chained to an economic system built during the British dominance and it was plagued with poverty, unemployment, agricultural backwardness, constant clashes with the independence movements supported by Bangladesh and Pakistan, inadequate health care, low life expectancy, lack of resources, infrastructures and political participation. To cope with these problems, Prime Minister Jawaharlal Nehru, who led the country from 1947 to 1966, introduced an economic model largely based on Fabian socialism, which sought to represent a third way between socialism and capitalism.

Despite the massive state intervention through many five-year plans, and several significant progress in the construction of infrastructure and the improvement of agricultural techniques, the Indian economy grew less than other East Asian countries, thus remaining stationary at a rate of 4% per year with a constantly growing national debt.

Nehru's work was continued by his daughter Indira Gandhi, whose tenure was mostly directed to eradicate poverty from society, an objective which required the nationalization of banks, a consistent easing of governmental controls on private enterprise, foreign trade and investment from foreign countries, and the reluctantly acceptance of a huge loan from the International Monetary Fund.

The social policies that the government had passed, which would be achieved by the following governments as well, represented a great improvement in the living condition of the Indian lower

society thus favouring the emergence of a middle entrepreneurial class, therefore allowing the development of a thriving software industry, yet to this day representing one of the country's major achievements in such area globally.

The last paragraph includes an overview of the three decades of pre-planned economy and the factors that dragged the country on the brink of a bankruptcy in the early nineties: an invasive regime of industrial and trading licences that discouraged both foreign investment and inner production, serious payment imbalances and more inefficient loss-inducing government corporations than the country could handle.

1991 was the year of an economic turnaround. Under the guidance of Prime Minister Narashima Rao, India opened up to the international market, reducing state control on production, prices, investment and trade with foreign countries. Several structural reforms were introduced, aiming to rebalance the government budget and the balance of payments through liberalization. Rupee was devaluated against the dollar in order to promote exports and to accumulate foreign reserves therefore reducing dependency on foreign capital.

Financial markets were opened too, the system of industrial licensing was slowly dismantled, the services sector flourished. Such measures caused that, over Rao's tenure, exports reached imports, foreign direct investment quadrupled more and more foreign companies decided to move their manufacturing and to request services to India favoured by the country's low-wage labour. India's economic growth was unleashed, even though globalization turned out to be disadvantageous for the poorest people, therefore crushed by the increase in the price level and the privatization of social services.

The second chapter focuses on the economy liberalization's dynamics stated above, and on how the enormous growth of the country proved not to be sustainable, to the point of collapsing due to the global crisis of 2008. Subsequently it is demonstrated how, rather than due to the crisis, india tumbled due to a series of wrongly thought economic policies, which increased the inflation rate to 12% and did not bring any benefit or wealth to the poors.

The last section of the chapter focuses on the outcome of 2014 general elections and the innovations brought in by the new Indian prime minister, Narendra Modi.

The victory gained by the BJP, a right-wing party, is meant to bring significant changes to the way in which economic policies are formulated, thus this dissertation attempts to predict which strategies the new Prime Minister might adopt, given that even from the first five months of his term he already has

shown, with the first Union budget enacted, that there are good chances of achieving those reforms that India has been craving for decades.

The third and final chapter, considers India as an actor on a global stage, outlining its role within international and regional organizations as well as among the BRICS countries, focusing on economic relations held with each of the member states. Particular attention is paid to the special relationship between India and China, which share a similar historic and economic development in some ways, which has then evolved differently.

In the end, this dissertation seeks to point out what it has been remarked above. Over the six and half decades since Independence, historic changes unfolded this country's infinite economic and human potential, relying on the world's youngest and largest workforce.

There are still huge inequities, involving the substantial differences of wealth and infrastructures in federal states, the badly balanced level of education and the lack of services accessible by the population, a population that still consists for its major part by the poors.

Can India grow faster again? Will it be able to resolve, under the new political leadership, the chronic problems that affect it not allowing its economy to complete its development?

What are the challenges and how they will turn out?