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Part V

Concluding Remarks

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The analysis in this volume points to the conclusion that India's foreign trade regime, in conjunction with domestic licensing policies in the industrial sector, led to economic inefficiencies and impaired her economic performance. This conclusion follows not merely from the static analysis in Part II, but also from our analysis of growth effects in Part IV. The policy framework was detrimental, on balance, to the growth of the economy by adversely influencing export performance, by wasteful inter-industrial and inter-firm allocation of resources, by permitting and encouraging expansion of excess capacity and by blunting competition and hence the incentives for cost-consciousness and quality-improvement. The effects on savings and research and development expenditures were, at best, ambiguous and cannot plausibly be cited as having offset these inefficiencies.

Secondly, our analysis of the June 1966 devaluation-cum-liberalization policy package, far from showing that exchange rate adjustment is unworkable, suggests the opposite conclusion. We have also been able to draw lessons on how such a policy package may be better designed to secure more acceptable and lasting transition to a less restrictive foreign trade regime.

Our detailed analysis of the June 1966 policy package, the lessons spelled out for making such a policy change more successful and efficient and the conclusion that such a change is necessary to stimulate the increased efficiency and faster growth of the Indian economy—these three aspects of our analysis strongly underline the need for India to adopt a new economic policy and the feasibility of such a transition.[1]

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1. The dimensions of such a new policy framework were spelled out in our joint paper, "Licensing and Control of Industry," given at the Prime Minister's Conference for Young Industrialists, March 1966. See also Bhagwati and Desai, *India*, pp. 477–496; and Bhagwati, *India in the International Economy*.