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IMPACT OF LIBERALISATION OF ECONOMY ON INDUSTRIAL STRUCTURE

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ABSTRACT

The subject matter is comparatively new and is of current importance. Effect of economic policies can be seen only after a time lag. This time factor also varies in duration based on the nature of policy and targeted variable one is looking at. For example, effect of monetary policy on rate of interest can be seen without much time lag, effect of interest rate on investment decision will require a slightly more time period. Effect of investment on industrial structure, industrial output etc. could be seen only after a substantial gap of time. There are various reasons for that but perceptible changes could be noticed only after sufficient time is elapsed. Changes of new industrial policy have started becoming visible after the time span of 6 to 8 years. But more meaningful study of the effects would require the time period of 10 to 12 years. So, time period of the study is contemporary and co terminus with Indian industrial restructuring. There are only a few studies which are targeting this segment. Moreover, focus of each study differs in content and character. The approach to this study is rather new, live and with little research on the aspects highlighted in the present study. The subject is significant for research in many respects. Periodic assessment of the policy matching the objections and outcome is an essential exercise that is to be carried out. There are various unintended effects of the policy which requires corrections. Proper targeting is needed in order to achieve predetermined objectives. Hence, if this study could identify the specific factors that are relevant in producing desired impact of the policy measures, they would certainly help in evaluating, guiding and re-adjusting policy actions. This would help in minimizing the time period or lags between policy announcement and its impact as well as plugging the loopholes of the policy.

Keywords: *Economic, Industrial, Policy, Monetary, Restructuring, Structure, Investment, Assessment.*

Introduction

In the history of modern Indian economy in the post-Independence era, there are certain landmark events, which stand out prominently. Formation of Planning Commission and adoption of five year plans for the development of Indian economy is one such event that casted its spell for nearly half the century thereafter. During this period India transformed itself from a colonial market which was being exploited for the benefit of the colonial master, to a modem day super market which no country in world can afford to neglect. In terms of size of the economy, purchasing power, national income, intrinsic strength India has shown tremendous growth. In the process of development India has witnessed many reforms and policy measures that have shaped its march towards economic excellence. Land reforms, green revolution, establishment of developmental financial institutions, nationalization of banks, oil shocks, devaluation of rupee, employment guarantee scheme, MRTP Act of 1970, Uruguay round and GATT, capital market reforms in the wake of boom and crash of 1991-92, population explosion crossing 142 crores mark are some of the sign posts that have left a permanent mark on the process of development. The NEP 1991 brought about a fundamental change in our outlook. It was a major break away from the past. Though objectives and targets remained more or less the same the way to achieve them was drastically different. The main reason for this break away was that though the old model has delivered certain goods it has reached a stage of stagnation. There is no single permanent solution for all

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the economic ills of all the time. Economic scenario keeps on changing and so do the problems and solutions. It was high time that India should have embarked on a new model of development, new to the country though many other neighboring nations especially from South East Asia had successfully demonstrated the benefits reaped from this new model. Adoption of a new model was a conscious decision of policy makers albeit under pressure from certain compelling factors.

Impact of Globalisation on Industrial Policy

Industrial development in India prior to Independence was slow, tardy, stunted and lop-sided. It began in 1850's with establishment of large-scale machine-based industries such as cotton textile, jute and coal mining. Tea, coffee and indigo plantation were other areas of major economic activity. But most of these activities were owned, controlled or dominated by Europeans, mainly British capital. They were attracted to Indian industry by the prospect of high profit. Very little Indian capital and enterprise was involved in these sectors. Indian markets mostly functioned as supplier of raw material and importer of finished goods. Moreover, Government followed a conscious policy of favouring foreign capital as against Indian capital. This artificially restricted and slowed down the growth of Indian industries. Apart from Government, Managing Agencies, banks, insurance agencies and transporters rivaled and discriminated against Indian firms. It was a hard struggle for Indian industry which was in the stage of infancy. Despite all odds Indian industry survived and thrived. Swadesh movement gave impetus to the industrial sector. Two World Wars provided shot in the arm to Indian industries. Decline in imports, increase in war time purchases, increase in import duties to enhance war revenue, decline in export of raw material created right atmosphere for Indian industry to grow. Between 1910 and 1940 industries like iron and steel, cement, sugar, paper, leather, matches, salt, mining, glass etc. developed rapidly. But the most serious weakness of industrial development was almost complete absence of heavy or capital goods industries. Non-availability of plant and machinery acted as an effective barrier for rapid development of industries.

On the contrary excessive wear and tear during wartime production and non-availability of replacement parts led to run down of the existing plants. Thus, at the time of Independence basic industries like heavy machines, metallurgy, chemicals, oil were conspicuously absent. Infrastructure in terms of power, electricity, transport, finance was almost non-existent. Indian capitalists also lacked technical and managerial knowledge. As a result, they had to import apart from plant & machinery, technical know-how and personnel to manage them. Indian businessmen made huge wartime profit which led to concentration of economic power. This big Indian business was able to grow much faster than the rest of the economy leading to concentration of control and certain degree of monopoly power. Even then in terms of production as well as employment industrial development was way short of India's economic needs. It was unable to compensate even for the displacement of indigenous labour from handicraft. It had very little effect on problems of poverty and over-crowding of agriculture. Industrial policy was conspicuous by its absence. Government of the day had only 'Imperial preferences' which were vehemently protested by Indians. With the growth of Indian National Movement and Swadesh Movement Indian business became assertive and demanding. But that was more in the nature of a few concessions and discriminating protection in favour of domestic companies/industries. The first Fiscal Commission in 1923 recommended a policy of 'discriminating protection' in favour of Indian industries though effectiveness of the policy was greatly reduced by rigid and unsympathetic attitude of the Government. As a result, even though Indian industrial capital was able to establish itself, industrial development suffered from stunted growth and severe deformities.

Impact of Globalisation on Economic Policy

The New Economic Policy has made an attempt to direct the nation towards a new path of economic development that is self-sustaining. India had successfully tackled the crisis and converted it into an opportunity to introduce a few bold policy measures. Past experience has shown that the policy of control in India was not effective in achieving the desired goals. The system was widely abused and had led to corruption, delays and inefficiency. The regime of control had shifted the business objectives away from competition towards rent seeking and securing monopoly position. It became less important to compete successfully within a framework of regulation than to manage the regulator to avoid competition. The New Economic Policy with its ubiquitous presence in almost all sectors of economy planned a paradigm shift in this environment. While the Industrial Policy of 1991 sought to bring about a greater competitive environment domestically, the Exim policy sought to improve international competitiveness subject to the degree of protection offered by the tariffs which were also declining. In short, the country embarked upon the process of liberlisation, privatization and globalization.

Changes in Outlook and Environment due to Globalisation and Liberalisation

Until recently role of private sector was only secondary to the public sector. Public sector was expected to control the commanding heights of the economy and private sector was expected to fill in the gaps in the process of development. The growth of the private sector had to take place within the limits laid down by the government regulations. But once these regulations were removed environment in which private sector functioned changed drastically. With the opening up of the economy domestic firms were expected to face competition from within and outside. The firms which once enjoyed the benefits of sheltered markets had to fight to maintain their market share. The markets which till recently characterized by shortages and were considered to be the sellers' markets were expected to get flooded with goods supplied by new entrants, domestic and foreign. Freedom for domestic industries had come with a price. The firms which were once guided by the governmental fiat had a different task master which was more ruthless in terms of efficiency and performance. The initial euphoria of working in liberalized environment gave way to newly dawned wisdom that only the fittest would survive. However private corporate sector was quick to respond. There was some initial resistance but once it was realized that reforms were bound to stay, they changed their outlook. They began the search for new opportunities and also undertook the tasks which would minimize the casualties. Change in attitude brought about change in strategies. The firms and the organizations had begun to prepare themselves to enter in to the new era of competition.

Existing structure of the industries was the result of the past policies which needed to be reviewed in the light of the new policy framework. Restructuring was the first daunting task that corporate businesses had taken up in response to policy changes. The licensing policy had encouraged business houses with the necessary resources to capture licenses in order to comer the market. Capacity restrictions by the state led them at the same time to attempt diversification through extensively branching out into all kinds of unrelated fields rather than to expand through intensively developing select industries. The result was an inefficient and flabby industrial structure of agglomerate firms under family control. Major characteristics of those industries were fragmented capacities and without economies of scale, largely stagnant technologies, dependent on the state for finance, concessions and protected markets, with little experience of real competition and with vested interest in an economy of scarcity and shortages which the system of controls had provided. This state dependent, non-dynamic, mutant private sector which Dr. Manmohan Singh, the then Finance Minister characterized as 'functionless capitalism' had to revitalise itself in the light of new policies.

Role of Competition Law and Policy

In recent past India endured a complete lack of consonance between the changing policy and economic environment on the one hand and the competition governance as was under MRTP Act on the other. Hence there was a need of new competition law. Consequently, a bill was placed before Parliament. On entering the assent of the President on the 13th January, 2003 the Competition Act, 2002 came in to force. As per the vittles of the Act the Competition Commission of India (CCI) was established to exclude practices having adverse effect on competition, promote and sustain competition, cover the interests of consumers and ensure freedom of trade carried on by other actors, in markets in India. The Commission is empowered to interrogate into anti competitive agreements negatively effecting competition (section 3), abuse of dominant position (section 4) and to regulate certain' Combinations' which include accession of shares, acquiring of control and combinations/ admixture between and amongst enterprises affecting competition (section 5). The Commission has also been given vide powers. The Commission can initiate the inquiry on its own or on damage of biddable or on reference from government or a statutory authority. In line with transnational trend, the Act was to be enforced in three phases. In the first time, the CCI was to concentrate simply on competition advocacy. In the alternate time, the CCI was anticipated to commence adjudication of enquiries relating to anti-competitive agreements and abuse of dominant position by an enterprise. In the third time, the CCI was to commence regulation of certain combinations. The Competition Act, 2002 was legislated to replace the Monopolies and Restrictive Trade Practices Act, 1969. Still, the Act was challenged in the Supreme Court on the grounds that it didn't cleave to the doctrine of separation of powers between bar and the superintendent as recognized by the Constitution of India. Pursuant to the action, the Government has proposed to amend the Competition Act and resolve the competition authority into two the Competition Commission of India and a Competition Appellate Tribunal. Because of action CCl has remained a non-starter. But going by the experience of TRAI which too had to face original problems, the enactment of the Competition Act and its enforcement by an independent Commission can be a crucial element in administering competitive dynamics. As the markets are likely to remain oligopolistic CCI must identify deformations similar as entry- exit walls, information walls and migration walls in the functioning of markets. Relinquishment of an applicable' competition policy' to remove these walls so as to have intended impact of the process of liberalization on the economy and a pro-active approach holds the key.

Conclusion

Competitive markets are indeed the most liberalized markets and liberalized markets are more competitive. However, liberalization can be anticipated to bring about predictable shifts in affair, employment, if markets do bear according to competitive rules. But the conditions under which the competitive markets function are relatively demanding and don't prevail in the real world which is beset with rigor of various types. Amiss information is one of the major obstructions in the smooth working of the markets. Effective development strategy must ameliorate the overflows of information as well as the economy's capacity to produce, transmit, process, absorb and use the information. Reforms were aimed at reducing the role of the government in certain areas and concentrate its energy on further applicable and important issues. Government also needs to push ahead alternate generation reforms vigorously. While first generation reforms were extremity driven, alternate generations are agreement driven. various objects outlined in the alternate generation reforms similar as reduction in financial poverties and subventions, vindication of levies to transnational position, restructuring of PSUs especially at state position, agrarian taxation, enhancement in social sectors pointers- health, education, water force, sanitation, casing, recovery of cost of social and economic services offered (electricity, education, health) are accepted by the policy makers yet there's a failure to edge policy measures for the purpose. Politics of competitive populism stands in the way of executing hard opinions. Eventually, no system is ever perfect. There's always a compass for enhancement in design as well as perpetration. The failures of markets are as striking as the failures of the government. It isn't a question whether one can succeed where the other have failed but whether the society can find a respectable optimal state of economy and whether government, using market and nonmarket instruments can reach that state.

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