further liberalisation measures to enhance the competitiveness by promoting free and fair competition.
CHAPTER 7
GOVERNMENT MEASURES, CHALLENGES AND POLICY IMPLICATIONS

Industrial development plays a significant role in the economic development of a country. The government of India adopted the path of planned economic development for industrial development under a mixed economic pattern after independence. The development strategy initiated by the Indian planners aimed at acceleration of industrialisation in India through state participation and intervention. At the time of independence, India inherited a weak industrial base with low capital intensity accompanied by the concentration of economic power. India’s industrial development has taken place within a diverse framework of industrial policies laid down by legislation and controls. The key objectives of such policies were the improvement of growth in output and productivity in the industrial sector, the control of monopolies to reduce economic concentration and the achievement of self-reliance by protecting the domestic market from foreign competition through protective foreign trade regime. In order to achieve such objectives the approach of planned economy was followed which envisaged a mixed economy with a substantial role for the public sector and state regulated private sector.

Evolution of the Industrial Regulatory Regime

The first industrial policy resolution was introduced by the government in 1948 which outlined the planned approach to industrial growth and development. The first major component of the regulatory framework for implementation of the industrial policy of the government was the Industries (Development and Regulation) Act, which was passed in 1951 (Prasad, 1993; Arun and Nixson, 1998; Chadha, 2004). The principal objective of this Act was to enable the government to implement its policy for the planned development and regulation of industries. The industrial licensing system, owing its legal authority to the Act, was the main instrument to steer investments into desired channels of industrial activity. The rationale behind industrial licensing was to
direct the process of industrial growth which is consistent with the broad objectives of industrial policy. As per the provisions of the Act, an entrepreneur was required to apply for a license from a licensing committee set up by the Act in order to set up a new unit, expand capacity by more than 25 percent of existing levels, or manufacture a new product. The process of applying for a license was quite cumbersome. It also represented barriers to entry of new firms and strategically used by established business houses to preempt capacity or reject the applications of new entrants. Comprehensive controls over prices and distribution of goods were also provided by the Act. The industrial licensing system failed to achieve the expected objectives. Such regulatory approaches neglected the effects on competition within the industry and investment incentives either in capacity or on improvements in productivity (Ahuluwalia, 1985 and Gupta, 1995).

The government adopted new industrial policy resolution on April 20, 1956 which replaced the 1948 resolution. The main objectives were to accelerate the rate of economic growth and industrial development; expansion of public sector; development of heavy industries; prevention of private monopolies and the concentration of economic power (Bhagwati and Desai, 1970 and Balasubramanyam, 1984). The state progressively assumed a predominant and direct responsibility for setting up new industrial undertakings. The resolution also contemplated for the private sector as an agency for planned national development. The resolution approved the policy of supporting small scale industries by restricting the volume of production in the large scale sector by differential taxation or by direct subsidies. It charted a fresh course, permitting a freedom of development in the private sector, but with checks to prevent a detrimental concentration of economic power. The heavy industry oriented industrialisation programme rested on the assumption of a closed economy and the achievement of self-reliance was sought to be achieved mainly through extensive import restriction. The basic principle behind import policy in the economy was to provide protection to domestic industry from foreign competition and conserving scarce foreign exchange. It was regulated by imports and Exports (Control) Act of 1947 and
the import trade control order 1955 which subjected almost all imports to quantitative restrictions in the form of import licenses. Certain items were especially restricted and some were altogether banned. These restrictions were supplemented by higher tariff rates which provided additional protection from foreign competition (Ahuluwalia, 1985; 1991).

In April 1964, the Government of India appointed a Monopolies Inquiry Commission to enquire into the existence and effect of concentration of economic power and operations of industrial licensing under the IDRA, 1951. The Commission was assigned to look at the prevalence of monopolistic and restrictive practices in important sectors of economic activity. Following the recommendations of the Monopoly Enquiry Commission to curb monopolistic practices of large houses, the Monopolies and Restrictive Trade Practices (MRTP) Act was passed in December 1969. This Act was enacted with the intention to distribute industrial activity throughout the country and avoid concentration of industrial power in few hands. Large industrial houses having assets of Rs. 200 crore or more were designated as MRTP companies and were eligible to participate in industries that were not reserved for the government or the small scale sector. One of the main aims of MRTP Act was to ensure competition (Swamy, 1994 and Lekhi, 2001).

In 1968, the government set up a Foreign Investment Board to streamline the procedures relating to foreign investments in India. The board was empowered to deal with all matters relating to private foreign investments and collaborations in which total equity capital does not exceed 40 percent of the issued equity capital (Rao, 1993). The government also decided to consider applications for collaboration from the small scale sector to give an encouragement and improve the efficiency that increased foreign investment but regulatory approach tended to delay decisions and created uncertainty. The entry of foreign capital was opposed because lack of competitive efficiency of the domestic industry. Foreign firms were also resented by domestic industrialists because of their efficiency.
In July 1969, Industrial licensing Policy Inquiry Committee was appointed to examine the shortcomings in licensing policy. The Committee observed that the licensing policy failed in preventing the practice of pre-empting capacity by large industries and development of industries. Following the recommendations of Industrial Licensing Policy Inquiry Committee a number of restrictions were put on the large industrial houses in the industrial licensing policy announced in 1970. This policy also confined the role of large business houses and foreign companies to the core, heavy and export oriented sectors (Singh, 1992 and Palande, 2000).

The FERA (Foreign Exchange and Regulation Act) 1973, which came into force on January 1, 1974, was introduced to regulate foreign investments which brought a great change in the industrial policy of the Government of India. The government empowered the RBI to exercise control over the activities of all non-banking companies with more than 40 percent of non resident interest as well as the branches of foreign companies. Purchase of technology was also tightly regulated. But, the FERA regulations have in fact proved self defeating. The dilution of foreign equity to 40 percent resulted into the declining trend of export effort and the restrictive approach to foreign investment proved counter productive because it curbed industrial growth (Mookherjee, 1998).

**Beginnings of Deregulation of Industrial Sector**

It is quite evident from the above discussion that in the process of evolution of industrial policy in India, the government’s intervention was extensive. The system of industrial licensing and controls had been set up with the object of promoting industrialisation in accordance with the national priorities in the context of shortage of capital, foreign exchange resources and entrepreneurship talents. The post independence industrial policy was aimed at promotion and expansion of public sector; prevention of concentration of economic power and promotion of labour intensive small scale industry to take over the commanding heights of the economy. In order to promote these industries the government protected these industries from competition by levying high tariffs and imposed import restrictions. Though the government policies and
regulations were aimed at industrial development but these policy measures acted as a great deterrent to the growth of industries in the country. The bureaucracy acquired unprecedented powers and authority over all kinds of industrial activities and retarded the industrial development of the country. Such over regulated and cumbersome regulations and protection of domestic industry from the competition declined the competitiveness of the Indian industry as discussed in earlier Chapter -3.

The political and economic environment was gradually getting compatible for change in policy. The industrial licensing policy was modified in 1973 emphasising on the decentralisation of industrial sector with increased role for small scale, tiny and cottage industries. It allowed larger industrial houses with assets more than Rs. 20 crore and foreign concerns to participate in the core industrial sector, provided it was not reserved for public or small industrial sectors. With a view to prevent excessive concentration of industrial activity in the large industrial houses, it gave preference to small and medium entrepreneurs over the large business houses and foreign companies in setting up of new capacity particularly in the production of mass consumption goods. It also issued a list of industries where no foreign collaboration of financial or technical nature was allowed as indigenous technology was already available. Fully owned foreign firms were allowed only in highly export oriented sectors or sophisticated technology areas. In order to ensure balanced regional development, it was decided not to issue fresh licenses for setting up new industrial units within certain limits of large metropolitan cities and urban areas. Further, some industries were delicensed and in 1978, the exemption limit for licensing was raised from Rs. 1 crore to Rs. 3 crore subject to certain conditions. The number of controls and regulations on trade was reduced and the scope of liberalisation of imports to boost export was also enlarged (Singh, 1992 and Jain, 2005).

The inward looking and import substitution strategy of industrial development began to be widely questioned with the beginning of 1980s. Policy makers realised that such strategies have inhibited competitiveness of the industrial sector. After 1980 the era of liberalisation commenced and the trend was gradually set to dilute the strict
licensing system and allow more freedom to the industries. The government announced its new industrial policy resolution in July, 1980 focusing attention on the need for promoting competition in domestic market, technological upgradation and modernisation of industries. It adopted a set of policies to remove the lingering constraints of industrial production and at the same time to act as catalysts for faster growth; optimum utilisation of installed capacity; maximum production and achieving higher productivity; faster promotion of export oriented and import substitution industries among others (Chadha, 1999 and Chaudhri, 2002). The policy laid down the foundation for an increasingly competitive export base and for encouraging foreign investment in high technology areas. Policy measures were also announced to revive the efficiency of public sector undertakings by developing the management cadres in the functional areas such as operations; finance; marketing and information system. An automatic expansion of capacity up to five percent per annum was allowed particularly in the core sector and in industries with long term export potential. Special incentives were granted to industrial units which were engaged in industrial processes and technologies aiming of optimum utilisation of energy and the exploitation of alternative sources of energy. In order to boost the development of small scale industry, the investment limit was raised to Rs. 2 million in small scaly units and Rs. 2.5 million in ancillary units. In the case of tiny units, investment limit was raised to Rs. 0.2 million (Government of India,1982).

Policy measures initiated in the first three decades since independence facilitated the establishment of basic industries and building up of a broad based infrastructure in the country. The seventh five year plan (1985-90) recognised the need for consolidation of these strengths and initiating policy measures to prepare Indian industry to respond effectively to emerging challenges. A number of measures were initiated towards technological and managerial modernisation to improve productivity, quality and to reduce cost of production. The public sector was also freed from a number of constraints and was provided with great autonomy (Prasad, 1993 and Palande, 2000).
Further, the inclination towards deregulation and decontrol of industry was initiated after the recommendations of the Narsimham Committee on industrial licensing. Following the recommendations of the Narsimham Committee on industrial licensing ostensible measures were undertaken for the deregulation of the Indian industry with the incorporation of the Industrial Policy of 1985 by removing constraints on industrial growth; creating a dynamic industrial growth and a dynamic industrial environment. These measures includes delicensing of non-MRTP and non FERA companies for 31 industry groups and MRTP/FEA companies in centrally declared areas for 72 industry groups; the threshold asset limit for companies under MRTP Act was raised from 20 crore to Rs. 100 crore; 112 companies were freed from the purview of the MRTP Act leaving 379 companies under the same Act and investment limit in small scale industries was drastically revised upward from Rs. 20 Lakh to Rs. 35 Lakh. A scheme of broad banding of industries was also allowed in respect of 45 groups of industries to allow them greater flexibility in production and ability to respond to the demands of the market (Alagh, 1989; Singh, 1992; Nagraj, 2002).

The industrial licensing policy of 1988 declared that non-MRTP and non-FERA companies would no longer be required to obtain industrial licenses under IDRA, 1951 for projects involving fixed investment upto 50 crore, if located in centrally declared backward areas. It reduced the number of industries requiring compulsory licensing from 56 to 26 and dereserved 200 items to be produced by small units. It also lifted MRTP and FERA limits on companies promoting computerisation and use of electronics (Mohan, 1992). In order to promote industrialisation of backward areas in the country, the government of India announced the establishment of 71 growth centres to be endowed with basic infrastructure facilities such as power, water, telecommunication and banking to enable them to attract industries.

To induce greater investment for making Indian industry globally competitive and to eradicate bureaucratic interference, the industrial policy of 1990 relaxed certain conditions in respect of labour laws and maintenance of records etc. for small scale units. The exemption from the requirements of licensing/registration was also permitted
for the units upto investment of Rs. 75 crore in centrally notified backward areas and upto Rs. 25 crore in non backward areas. Further, entrepreneurs were entitled to import capital goods upto 30 percent of ex-factory value of its production (Chadha, 1999).

However, control oriented policies perpetuated by the powerful lobbies of bureaucrats, politicians and the large industrialists proved injurious to the industrial economy of India as discussed earlier in Chapter-4. The license raj prevented new capacities to enter and effectively rationed out the market. The excessive controls also resulted in lop-sided industrial growth with excess capacity in some sectors and supply bottlenecks in others. Apart from the poor quality and high price meted out to the domestic consumer, it also affected exports because the costlier exports lost out in the international market Ahuluwalia (1985) argued that the inefficiency and low competitiveness of the Indian industrial sector was mainly fostered by the regime of subsidies, controls and licenses. Controls on production, licensing restrictions along with high protective walls had fostered monopolistic trends within industry which made it import intensive and inward looking. In the absence of competition both at domestic and international levels the industrial sector proved low competitive.

During 80’s policy measures were adopted for promoting competition in the Indian industry by permitting import of technology and facilitating modernisation. Such measures had positive impact on Indian industry which gained considerable capability to meet the emerging global changes. These positive signals gave further thrust to the planners to adopt a number of policy measures and procedural changes with a view to enhance productivity, reduce cost and improve quality. Thus, prior to the announcement of the New Economic Policy a beginning was already made to open up the economy to greater competition (Prasad, 1993 and Nagraj, 2003).

**New Economic Policy for Enhancing Industrial Competitiveness**

The New Economic Policy announced on July 24, 1991 was indeed taken as a major step towards economic restructuring with liberalisation and deregulation of trade and industrial policies to build a competitive, vibrant and dynamic economy. The New Industrial Policy was further extension of the reform measures to increase competition
by increasing efficiency in industrial sector. The objective of Industrial Policy Statement of 1991 was to maintain sustained growth in productivity and to attain international competitiveness by unshackling the Indian industry from excessive control measures that proved harmful for Indian industrial growth (Singh, 1993 and Roy, 1993).

The announcement of the New Industrial Policy was of remarkable significance in exacerbating the pace of deregulation and catalysing of competition with an aim to improve efficiency, raise productivity and help globalisation of the Indian economy. The thrust of the new policy was to intensify market contestability in order to enhance industrial competitiveness. It encompassed wide ranging reform measures in the areas of industry, public finance, banking and insurance, foreign trade and exchange rate management. The purpose of these economic reforms was to restore macroeconomic stability on both internal and external fronts and to place the economy on a higher growth path through enhanced levels of investment; improvements in productivity; efficiency and competitiveness. The New Economic Policy was welcomed for ensuring competitive and market economy in place of the outmoded command and controlled economy (Patel, 1992; Krishnamurthy, 1993; Chandra, 2005).

Since 1991, industrial policy measures and procedural simplifications have been reviewed on continuous basis. It abolished industrial licensing except 18 specified industries related with security and strategic concerns; social reasons; hazardous chemicals or environmental reasons. The industrial delicensing was coupled with the policy towards increasing privatisation of industry through disinvestment of public sector undertakings. The MRTP Act was also amended to govern the provisions of monopolistic, restrictive and unfair trade practices. The pre-entry scrutiny of investment decisions of MRTP companies was abolished. The provision restricting mergers, amalgamations and takeovers were also repealed. This was expected to enable Indian firms to become large enough to compete effectively in global markets (Krishna, 2003 and Jain, 2005).

Elimination of export subsidy along with currency adjustment and measures such as partial convertibility of rupee are excellent way of imposing competitive
pressure in Indian exports backed by market mechanism for facing emerging challenges in international trade. The government decided to progressively substitute licensing and quantitative restrictions within fiscal controls and also to reduce the levels of import tariffs to impose competitive pressures on Indian industry (Krishnamurthy, 1993).

The high rates of import duties which were imposed for protecting the domestic industry from competition resulted in efficient and high cost domestic production. The government lowered the tariffs gradually to revitalise the Indian industry by opening up the Indian economy to global competition for making the Indian industry competitive following the recommendations of Chelliah Committee on tax reforms set up in June 1991. The Committee also recommended simplification and moderation of direct and indirect taxation. Accordingly, government reduced the rates of income tax as well as corporate tax. Modified value added tax (MODVAT) scheme was introduced to avoid cascading effects of excise duties. In order to support economic reforms financial sector reforms were also initiated. New private sector banks were licensed so that public sector become more efficient and competitive. The banking system was burdened with heavy mandatory reserves requirements designed to support government borrowings below market rates. These were set right in 1992 by reducing the mandatory reserves requirements and deregulating the interest rates. Following the recommendations of Narsimham Committee, the government decided for phased reduction in the statutory liquidity ratio (SLR) from 38.5 percent to 25 percent. Capital markets were also brought under the reforms through the newly constituted statutory body in February 1992 namely Securities and Exchange board India (SEBI) which is to oversee the functioning of the capital markets (Rajan, 1998, and Rao, 2000).

With the revolutionary provision of partial convertibility of rupee, as stated in the budget during 1992-93, the facility of using the proceeds of exports for import purposes has been further expanded. Under this provision only 40 percent of the foreign exchange remitted in India from abroad or earned through exports would have to be compulsory converted into Indian rupee on official exchange rate under Liberalised Exchange Rate Management System (LERMS) and the remaining 60 percent could be
converted into Indian rupees on the basis of open market determined by demand and supply forces. The sole purpose of this scheme was to gradually abolish various types of controls prevailing in the economy to develop more competitive economy (Sinha, 1993).

Steps were also taken to facilitate inflow of Foreign Direct Investment (FDI). In January 1997 the first ever guidelines for FDI were announced for expeditious approval of foreign investment in areas not covered under automatic approval. The government ensured a liberal and transparent foreign investment regime where most activities were opened to foreign investment on automatic route without any limit on the extent of foreign ownership. FDI up to 100 percent was allowed under automatic route for most manufacturing activities in special economic zones. Foreign Institutional Investors (FIIs) were permitted to trade on stock exchanges and since 1997 the FIIs have been permitted to increase their equity participation in a company (Singh and Ahmad, 1999 and Chadha, 1999)

The upper limit of the participation of foreign private capital in joint ventures was raised from 40 to 51 percent in equity shares and further promised to provide it all facilities available to the domestic capital and companies in India. It also relaxed norms with regard to clearance of proposals for foreign investment. The policy was also supposed to bring foreign technology along with foreign private capital in addition to the advantages such as marketing expertise, introduction of modern managerial techniques and methods of export promotion. With a view to inject technological dynamism in the Indian industry, the government provided automatic approval for technological agreements related to high priority industries and eased procedures for hiring of foreign technical expertise. On realising that FERA was not in tune with the economic reforms, the government replaced it with a new legislation i.e. Foreign Exchange Management Act (FEMA), 1999, which came into effect from June 1, 2000. FEMA aimed at facilitating external trade and payment and promoting the orderly development and maintenance of foreign exchange market in India (Prasad, 2005).
The government intervention in investment decisions of large companies through MRTP Act had proved to be harmful for industrial growth. A dire need for an entirely remodeled competition policy was being urgently felt so as to streamline global competition and at the same time to make Indian industry more competitive as discussed earlier in Chapter 4. A high level committee was constituted in October 1999 under the chairmanship of SVS Raghavan to go into the aspects of competition policy and a related law. The Committee submitted its report in May 2000. The Competition Act was passed in 2002 and received presidential assent in January 2003. It seeks to promote and sustain competition in markets, protect the interest of consumers, to ensure freedom of trade for all participants in India and to thwart anti competition practices. The new Act takes into account the contemporary issues of globalization and WTO besides the shortcomings of the new repealed MRTP Act 1969. The legislation seeks to clear all the hurdles in promoting competition among business units of domestic and foreign origin. The Act focuses on prohibition of anti competitive agreements, abuse of dominant position, regulation of combinations and advocacy of competition policy (Rao and Radha, 2004 and Dhall, 2008).

Efforts were also made for revitalising the small scale industry in the economy. Reservation of items of manufacture exclusively in the small scale sector has been an important part of industrial policy. Realising the increased import competition with the removal of quantitative restrictions, the government adopted a policy of dereservation. The investment limit in the plant and machinery of small scale units has been also raised by the government from time to time.

Liberalisation and globalisation have provided unprecedented opportunities for the growth and expansion of the industry in general and the manufacturing in particular. The Indian industry has not to face only stiff competition from free imports but also continue its efforts to grow its export capability through competitiveness. There is a continuous need to benchmark the Indian industrial sector against the best in the world and enhance its competitiveness. Attaining competitive edge in industrial sector depends critically on mitigating constraints; both the general constraints such as inadequate infrastructure; high transaction costs; higher interest; power and regulatory issues as well as sector specific constraints such as technology upgradation; market access; duty structure; managerial practices and competitive scales etc. as earlier discussed in Chapter-5.
Recognising the importance of manufacturing industrial sector in overall economic growth of a country and the need for enhancing its productivity and competitiveness the government has set up the National Manufacturing Competitiveness Council (NMCC) on 6th October 2004 which is an interdisciplinary and autonomous body to serve as a policy forum for credible and coherent policy initiatives for enhancing competitiveness of the Indian manufacturing industry. The National Strategy for Manufacturing (NMS), 2006 prepared by the National Manufacturing Competitiveness Council (NMCC) had considered all the aspects which required attention for improving the competitiveness of the Indian manufacturing industrial sector. In another significant move, the government enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 for facilitating promotion and development as well as enhancing the competitiveness of micro, small and medium enterprises became operational from October 2, 2006 (Government of India, 2008).

The government also appointed a Group in January, 2008 to look into the issues relating to the growth of the manufacturing sector and make recommendations. The terms of reference of the group are:

a) to suggest policy measures and a continuing mechanism to ensure sustained growth of the Indian manufacturing industries for the next 10-15 years;

b) to suggest policy measures and immediate steps to reverse the recent deceleration in the growth of the manufacturing industries;

c) to suggest policy measures and immediate steps to boost exports of Indian manufactured goods in the face of appreciation of the rupee and high interest rates, particularly with respect to labour intensive sectors like textiles, leather and handicrafts;

d) to suggest policy measures to leverage FDI to modernise manufacturing in India and create a strong technological base.

The approach paper to the 11th five year plan (2007-12) observed that licensing controls and discretionary approvals have been gradually reduced but there are many remnants of the control regime that need drastic overhaul. Quantitative controls, where they exist, should give way to fiscal measures and increased reliance on competitive
markets subject to appropriate, transparent and effective regulations. The major reason for the low contribution by the manufacturing industrial sector has been the inability of the country to build and maintain competitiveness to meet the global challenges as well as to develop a larger domestic market through low cost production. The government should create conditions for fostering healthy and competitive industrial sector by providing improved infrastructure and substantial additional investment for creating capacities to meet the growing needs for the modernisation of the industry. A major component of the plan must be to design policies that spur private sector investment while encouraging competition by guarding against monopolistic practices.

**Challenges to Industrial Competitiveness and Limitations of India’s Competition Policy**

Inspite of the fact that competition policy has been geared to take up the challenges of competitiveness by promoting free and fair competition both at domestic and international levels as highlighted in chapter 5 and 6. However, there are certain challenges to industrial competitiveness as well as limitations of competition policy both at national and international levels.

**Lack of access to global markets** – With the liberalisation and globalisation of the Indian economy, the Indian industry has unprecedented opportunities to enter into the global market. While access to global market has offered a host of business opportunities and at the same time there are challenges in exploiting international market due to scale of operation, technological obsolescence, inability to access institutional credit and intense competition in marketing (Lall, 2001).

**Lack of Skilled Manpower** – Human capital is also a big challenge facing the manufacturing sector in India. Although India has the advantage of a large pool of human resources, the industry continues to face deficit in manpower with skills set required for manufacturing sector. Skill building is required at all levels, from the level of vocational training to those requiring higher technical and managerial skills. Competitiveness of the industry depends upon the skill work force for effective use of
technologies. The recent spurt in growth of the economy has exposed the widening skill deficit confronting the industry (Mani and Bhaskar, 1998; Kim and Nelson, 2000)

**Inadequate Infrastructure Facilities** – The quality of infrastructure of a country has a direct bearing on several key elements of competitiveness of the manufacturing sector. To ensure competitiveness of the industrial sector, it is essential that the availability of infrastructure is in tune with the global trends. The state of infrastructure especially export infrastructure for the industrial sector is poor and unreliable. Several studies like the IMD World Competitiveness survey have ranked India a lowly 54th among 57 countries on infrastructure facilities. Poor quality of power supply, road networks, ports and airports are believed to create significant disadvantages for Indian manufacturers by pushing up their costs of production, and making them uncompetitive in export markets (Lakshmanan et al., 2007 and Bhattacharya et al., 2010).

**Inadequate R&D Efforts** – Technology is an important tool which could cause fundamental changes in the level of competitiveness. R&D expenditure is an important part of the competitive strategy of the business as it helps in assimilation and adaptation of foreign technology and making it suitable for indigenous use. The industrial sector in India, with some exceptions is characterised by low technology levels, which acts as a handicap in the emerging global market. The R&D efforts in respect of industrial innovation and development are inadequate (Goldar and Renganathan, 1998 and Wignaraja, 2003).

**Lack of Marketing**– Due to very high cost of business acquisition, low advertisement budget and non participation in international events, the marketing of industrial goods in the global market is extremely poor. It reduces the marketability of the domestic products in the international market.

**Inadequacy of Economic Reforms**– The focus of the new economic reforms initiated in 1991 was on improving efficiency and overall economic growth. There was greater emphasis on allowing industry to operate in a free market and ensure that the economy reaped the benefits of competition. However, during the process of liberalisation and
globalisation, the trade and related policies were not adequately leveraged to strengthen manufacturing sector.

**Labour Policy Reforms** - Despite the impressive reform measures there are certain areas in which there has been little progress. One area in which there has been no major policy change is in the labour regulations that apply to India's industry sector. According to Panagariya (2004), it is rigidities introduced by these regulations that are holding back the manufacturing sector in general and its labour-intensive sub-sectors in particular. Since the issue of India's labour regulations is one of the most contentious ones in the context of debates on economic reforms. Even though there have been extensive product market reforms, it has been widely observed that the labour market reforms to complement these have not been undertaken. It is important to note that not all analysts agree that India’s labour laws have made for a rigid labour market. Ultimately, whether India’s labour laws have created significant rigidities in labour markets and have been the main constraints on the growth of Indian manufacturing sector. India’s labour law is not market driven, thus the problem of unskilled labour and its low standard reduces the competitiveness of the industry.

**Foreign Technology Collaborations** – In India, the policy for foreign technology collaboration is quite liberal. It has allowed foreign companies to set up their own 100 percent subsidiaries and tap the domestic market demand which is also hampering the process of technology transfer. Foreign companies enter into technology collaborations only in cases where the technology offered is of older technologies which are one or two generations behind and/or where the size of the market does not make economic sense to establish their own subsidiary in the country seeking technology (Siggel and Agarwal, 2009).

**Financial Sector Constraints** - Another area in which there has been rather slow progress on reforms is the financial Sector. Reform efforts in this area have been directed at deregulating interest rates; some dilution of public ownership of banks; and limited opening up of the sector to private domestic and foreign banks. However, some major challenges still remain. These include a very high share of public ownership in
banks and low level of bank intermediation partly because of regulations on the allocation of credit, which require banks to allocate a substantial percentage of their total advances into government securities and other priority sectors. Credit constraints due to weaknesses in the financial sector may be holding back small and medium sized firms from expanding.

**Inefficient Public Sector** - Public sector was assigned lead role for the industrial growth since independence. But, the protection of the public sector from the competition proved counter productive. It led to risk averse management, obsolete technology, lack of investment and poor performance. The improvement in the public sector is a precondition for India’s future economic growth (Rao, 2001).

**Administrative Bottlenecks** – The government procedures and policies play an important role in defining the attractiveness of a country as industrial destination. The procedural and regulatory hassles have inhibited the industrial competitiveness. The procedural delays in the administrative practices have adverse impact on the implementation of the decisions that are important for the industrial growth. A number of studies have been made both by the industry and the government regarding the adverse impact of the delays due to complex procedures. India is still rated a difficult place to set up a new business in terms of procedures and clearance required, the time to make things happen and the resultant cost of doing so.

**Small Scale Sector** – Small scale industry is the backbone of manufacturing sector. The small sector is heterogeneous, dispersed and substantially unorganised. The major challenges for this sector includes high cost of credit, inadequate infrastructure, low technology levels, absence of suitable mechanism, lack of branding and marketing efforts etc. The policy towards the small scale sector has undermined its competitiveness and the economy as a whole. Reservation of products has prevented the small scale industry to become efficient on account of quality and cost as compare to the global standards. The intense competition has made imperative to overcome the challenges to sustain competitiveness through lower cost, improved quality, innovation and upgradation of technology.
Pressure of Competition from MNCs – Liberalisation of FDI policy has allowed entry of foreign firms and increased the extent of competition in Indian markets. The new entry of firms increases the toughness of competition by bringing in new technology and low costs of production. Trade liberalisation has increased the imports that compete with domestically produced products. These imports are cheaper and of superior quality. It is a great challenge for the domestic players to equip themselves to survive in the competitive environment by reducing their own cost and improvement in the quality of the products (Ramaswamy, 2006).

Lack of Export Promotion efforts – Exports serve as a conduit for technology transfer from abroad and generate competitive pressure on enterprises. Over dependence on the foreign capital could prove to be a fragile base for a sustainable economic growth. There is a need to earn our own foreign exchange through higher exports. Since 1991 the emphasis of policy was on import substitution which was tilted in the favour of export promotion. However, these efforts fell short of expectations and exports continued to be sluggish. Extensive paperwork, cumbersome administrative procedures resulting in inordinate delays and controls over imports and exports have proved inimical to export efforts and resulted into low competitiveness in the international market.

Inflow of Foreign Capital – The quantum of foreign investment is no doubt an important concern, but vigilance about the quality and composition of the same is also necessary. Investment should flow in the manufacturing sector rather than in the capital market. The central and state governments should ease the rules for clearance of FDI proposals to create an investment- friendly environment.

Government Policies – The last decade has seen significant relaxations in quantitative restrictions, reduction in tariffs and an easing of the exchange control regime. Despite this, the operation of key elements of the trade policy regime has severe anticompetitive dimensions. The reduction of trade barriers has been accompanied by a proliferation of anti-dumping measures imposed by India. In several cases, the anti-dumping authority accepted an increase in the foreign firms’ market share as evidence of injury.
The government is also continuing with a discriminatory policy in favour of the public sector. Such preferences to public sector create an uneven field for private sector players and distort the market.

Similarly state government policies too create anti-competitive outcomes. The overall policy environment and the quality of economic governance are important factors determining the growth potential of a state. The policies, rules and regulations adopted by the state governments are obsolete in the present economic environment and adversely affect the competitive forces and competition culture in the country.

**Taxation Structure** – The Indian taxation system is complex, differs regionally and inefficient for the manufacture as the cascading impact of various taxes like excise, VAT and octroi. The income and corporate taxes are imposed by the central government and the states levy their own taxes and provide discretionary exemptions to attract investment. Although the reforms have led to simplification and reducing the tax burden but more transparency and equity are desirable for international competitiveness (Siggel and Aggarwal, 2009).

**FDI policies** – Policies regarding FDI which is another vital source of competition and competitiveness are still discretionary and restrictive. International comparisons in this respect placed India in the category of under performers with low inward FDI performance and low inward FDI potential (Bhavani and Bhanumurthy, 2007).

**Anti-Competitive Practices** - Anti competitive agreements are agreements in respect of production, supply, distribution, shortage etc. which has harmful effects on competition as discussed earlier in chapter 4. Such practices in developing countries affect the supply of intermediate products used as industrial inputs, thus impeding the development and the competitiveness of local production in developing countries. Anti-competitive practices like cartelisation and abuse of dominance and anti-competitive mergers are getting globalised to take advantage of the absence of effective reach of competition authorities across borders (Bilal and Olarreaga, 1988; Scherer, 1994 and Peter, 2010).
**Competition policy and WTO** - The new rules of the game empowered by WTO have thrown up new challenges for scrutinising and invigilating more subtle ways of the MNCs. While at the same time protecting small domestic industries against the cost of capital; advertising and skilled management advantages of the MNCs. The invocation of WTO rules has stimulated multi-lateral trading and commodity, factors and capital flows due to crumbling tariff and non-tariff structures all across the globe which has augmented global competition. In the emerging perspective of globalised and liberalised markets, MNCs are accentuating merger and acquisition activity to consolidate and entrench themselves in developing markets, steered by their easy access to cheaper capital finance (Chadha, 2004). Moreover, the WTO agreements on TRIPs, TRIMs, subsidies and countervailing measures and anti-dumping measures have been used in the interest of developed countries.

**International Mergers** – The current international merger movement raises important concerns for developing countries like India. Such mergers may lead to increased market power of large MNC’s and their potential abuse of dominance. Developing countries are clearly affected by the monopoly power effects of international mergers. It reduces the contestability of markets.

**Regulation of Combinations** – The Competition Act, 2002 empowers the competition commission of India (CCI) to look into a combination up to a year after it has taken effect and to undo or modify it if the combination causes or is likely to cause an appreciable adverse effect on competition within the relevant market in India. However, unscrambling of a merged firm’s assets will not only require technical expertise in the CCI but is also likely to be a costly affair. Further, while the Competition Act has provisions for combinations regulations, the definition of combinations is very narrow in its scope. It does not include joint ventures and alliances etc. (Dhall, 2008).

**Suggestions and Policy Implications**
To ensure industrial competitiveness there is need of macroeconomic stability through a macroeconomic framework which includes monetary and fiscal policies as well as sound public finances based on the principles of transparency, responsibility and accountability. It is the pre-requisite for the competitive strength of industries for the long term and help to raise productivity and sustainable growth in the industrial sector (Bhavani and Bhanumurthy, 2007).

The manufacturing sector is significantly dependent on the infrastructure facilities. Poor infrastructure is a major constraint in the growth and competitiveness of the manufacturing sector. Therefore adequate provision of these facilities should be urgently taken to enhance the competitiveness of the industrial sector. Skill development is also essential for the development of the industrial sector. The Indian industrial sector needs to attract the best brains to become globally competitive. Any effort to improve human capital has to take into account the needs of not only the domestic market but also the increasing opportunities in the global market. The upgradation of the industrial training institutes should therefore be pursued vigorously through public-private partnerships. Conditions of service in the industrial sector would need to be improved to attract better candidates to this sector. The availability of technically skilled personnel can be possible by providing professional industrial training to meet the emerging needs of the industry. It becomes also important to carry out labour reforms in order to accelerate investment, productivity, employment generation and competitiveness (Lakshmanan et al., 2007 and Government of India, 2008).

The growth of the manufacturing sector is conditioned by various actions, laws and regulations of central, state and local level government. Therefore, it is essential that centre as well as the state governments act in a coordinated manner to create the necessary conditions for investment and growth of the industrial sector. Efforts should also be made to review their existing policies and regulations to make them competition friendly.
Ensuring the competitiveness of small scale industry is vital for the overall growth of manufacturing sector. The SMEs form the back bone of the Indian industrial sector. The government must promote technology in SMEs to enhance their competitiveness. There is need of focused efforts to remove certain impediments such as access to credit; technological obsolescence; infrastructural bottlenecks; lack of R&D initiatives; marketing constraints and disabling rules and regulations. A national quality campaign as enabling platform for developing competitiveness in the Indian manufacturing industry particularly for SMEs should be launched. The government needs to encourage the process of self registration of SSI units by empowering industry associations (Rao, 2001).

It is also important to effectively utilise intellectual property rights particularly patents for technology up-gradation and growth as well as wealth creation by the manufacturing sector in a globalising competitive market. The manufacturing sector needs to take advantage of the new IPR regime to enhance its competitiveness for which capacity building and facilitation would be required. Enterprises should be able to acquire new knowledge not only for innovation but also in order to be competitive in a TRIPS-compliant IPR environment (Basant, 2000).

Current Stage of ICT adoption in Indian manufacturing sector is not encouraging and the lack of global competitiveness in manufacturing is partly due to lack of adequate ICT enablement of business processes and management practices in the Indian industry. Most of the enterprises have not been able to adopt the ICT architecture due to unaffordability of the costs associated with it. However, the need is for functional automation and cross functional process integration and hence it becomes necessary for the government to create awareness about ICT application among such manufacturing firms. ICT can act as a powerful enabling technology to significantly improve the global competitiveness of Indian manufacturing sector (Joseph and Abraham, 2007; Mallikarjun, 2010).

Adoption of global best practices in manufacturing is another area which requires attention for ensuring sustainable competitiveness. Benchmarking and standard
setting has to begin from building the human resource and extended to the entire value chain. A paradigm shift in manufacturing sector can be achieved, if manufacturing is not just viewed as a process in the factory, preceded by design and followed by sales but as a new way where R&D is considered as a critical component of product design to supply chain management and customer relations (Government of India, 2008).

Public Sector Enterprises (PSEs) need to continue with the adjustment process and constantly improve their competitive edge to survive and play their role meaningfully. There are some basic disabilities under which the PSEs are functioning and these need to be addressed. In the context of PSEs, further reforms are needed to make them competitive. These include autonomy; review mechanism; delegation of powers; cost and productivity; sourcing decisions and technology (Rao, 2001).

Developing countries should adopt an appropriate strategy of liberalisation and integration into the world economy as per their requirements. In the current trends in global competition, competition policy is a vital tool for the achievement of systematic competitiveness through workable competition as well as protecting from anti-competitive practices. Competition policy is an integral part of economic policy which serves to preserve and promote competition as a means to ensure efficient allocation of resources in an economy, resulting in the best quality, lower prices and adequate supply to consumers (Mehta and Evenett, 2006).

Indian companies are investing abroad as much as foreigners are investing in India. India’s economic interests in foreign countries are increasing. It is in India’s interest to ensure that these investments and investors get a level playing field in those countries. Inclusion of competition related provisions in Regional Trade Agreements (RTAs) that India signs with these countries, with provisions related to cooperation in enforcement, would be necessary (Peter, 2010).

Besides the above general suggestion, the following policy recommendations may be put forth for improving the effectiveness of India’s new competition policy in stimulating the competitiveness, which emerge directly from the present study:
1. Sound regulatory regimes increase competition, encourage efficiency and also enhance competitiveness. The regulatory framework should ensure fair competition, better access to markets and level playing field for domestic manufacturers. Government has a major role to play in providing the right market framework and regulatory environment as these provide invaluable impetus to the industrial competitiveness.

2. There must be concerted efforts to augment the export competitiveness of the Indian manufacturing industry through tax/tariff reforms. There is considerable scope for diversification of manufacturing exports to improve its competitiveness.

3. Efforts should be made to maximise operational efficiency and adoption of measures to minimise the cost and improving quality in order to become cost competitive in the domestic and international markets. Indian manufacturing would be competitive only when the cost of manufacturing is low.

4. Innovation is the key for enhancing productivity to maintain the industrial competitiveness. Investing in R&D for innovative technology by the industry is necessary and should be encouraged and steps should be taken to encourage better coordination of efforts with greater focus on innovation and productivity enhancing technologies. In addition to tax relief measures on R&D expenditure, government funding of R&D should be enhanced to support the efforts of the manufacturing sector.

5. There is need to increase productivity of capital to avoid the problem of excess capacity by increasing demand in the domestic as well as international markets.

6. In order to make Indian industry globally competitive, more structural reforms are required particularly in the areas of industry deregulation.

7. Brand building is very crucial ingredient of marketing strategy. Advertisement is a prerequisite in the competitive regime. More efforts are required in this area mainly by enhanced advertisement expenditure.

8. Effective implementation of competition policy according to the economic conditions and requirements of the country is indispensable.

9. More liberalised FDI regime is required to fulfill the investment requirements in the industrial economy.
10. Product dereservation policy must also be further implemented in order to make Indian industry globally competitive.

11. More steps are required to be taken for the human capital development for ensuring professionalism in the management practices.

So, with above mentioned measures, the industrial competitiveness of Indian economy can be enhanced in the competition regime both in domestic and international markets to a great extent.