CHAPTER 8

SUMMARY AND CONCLUSIONS

Introduction
Competition is a vital constituent for stimulating the industrial competitiveness. There are broadly two different schools of thought in respect of market competition. One school of thought favours regulated market on the premise that free markets lead to concentration. Regulation is necessary for equitable distribution of income and wealth. Market mechanism is unable to allocate the scare resources in a socially optimal way. On the other hand, the second school of thought advocates free competition. As per this school of thought markets should be free, open and unregulated; because it leads to optimum utilisation of resources and enhancement of social welfare. Competition ensures stronger market forces, lower costs and prices and an increase in consumer welfare.

Both the extremes, government regulated markets and pure competitive markets, are not tenable. This is so because, in both the cases market imperfections are imminent. A perfect competitive market fails to achieve allocative efficiency, promotes private monopolies and economic concentration. On the other hand, regulated markets give rise to state monopolies, product and market reservation. But the basic requirement for optimisation and efficiency is that the markets should function efficiently. So the need is to highlight the corrective role of governments through a well-designed competition policy, which will not only promote contestability in markets but would also ensure the escalation of competitiveness of industries and markets. Competition policy is a key element in maintaining both the efficient functioning of markets and competitive pressures. Deregulation will not be enough to prevent the abuse of market power. More vigorous regulation of anti-competitive practices may be required to cope with the problems as incumbent firms could counter the removal of statutory entry barriers with strategic entry barriers or predatory practices. Liberalisation could also result in abuse of market dominance by MNCs with the resources to engage in forms of competition.
that could drive out domestic rivals. Thus, the need to safeguard competition remains even in a liberalised economy (Bhattacharjea, 2004).

India adopted planned development strategy for industrial development by assigning significant role to the public sector since independence. The government regulated various aspects related to investment, production and trade by the private sector through industrial licensing and other controls and measures. However these policies proved detrimental for the industrial efficiency and competitiveness due to lack of competition. A process of re-orientation of the policy framework began in the late 1970s, which gained momentum in the 1980s. These measures included industrial de-licensing, softening of restrictions on monopolies, liberalisation of capital goods imports with a view of technological up-gradation and modernisation of industry. However major reforms were undertaken in 1991 largely guided by the need to improve the competitiveness of Indian industry. The main thrust of new economic reforms was to promote competition to enhance competitiveness i.e. ability to compete. It was recognised that competition puts pressure on producers to improve. The New Economic Policy introduced radical changes to unshackle the industrial economy from cobwebs of a plethora of unnecessary controls. The objective of these reforms is to stimulate competition between firms in both the domestic and external markets. This, it was believed, would help in augmenting the competitiveness of the Indian industry (Rao, 1993 and Chadha, 2004).

The lack of technological dynamism, the absence of competition and the protection of markets drastically restricted the development of a competitive industrial sector in India (Arun and Nixson, 1998). The new economic policies introduced since 1991 marked a fundamental break with the past and drastically reduced the degree of state regulation. The opening up of economy has provided the avenues for India to be part of global economy and compete in the international market. India’s economic policy reforms have played a critical role in the performance of the Indian economy since 1991. The reforms have involved opening of the economy, making it more competitive, getting the government out of the huge morass of regulation. Since 1991,
the Government of India has introduced a series of economic reforms, including policies of liberalisation; deregulation; disinvestments and privatisation (Kapila and Kapila, 2002). The seriousness of macroeconomic imbalances and unanimity among political parties towards reform made this possible. The broad thrust of the new policies was a move away from the centralised allocation of resources in some key factors by the government to allocation by market forces. Private participation in economic development has emerged as an alternative to the state owned-oriented development strategy in the reform period. The liberalisation of the Indian economy included changes in different spheres of the government economic policy resulting in lessening government controls and permitting a greater leeway to market forces.

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 Monopolies and Restrictive Trade Practices (MRTP) Act, which came into being 1969, was designed for a different era to serve the socio-economic objectives of that time. In 1991, one of the first measures in the reforms package was to delete the provisions in the MRTP Act, which related to controls on larger business houses in setting up new ventures or expanding existing operations. However, it was soon realised that the Act needed extensive review. The MRTP Act was geared to controlling the concentration of economic power by limiting the growth of large industrial houses, and in this respect it may have actually dampened competition by preventing expansion of the more efficient large firms. The focus of the MRTP Act was on controlling monopolies whereas, now, the focus needed to be on promoting and protecting competition. Another factor underlying the desire for a new competition policy
stemmed from the changes in the international economic environment, in particular from the establishment of WTO. The Ministry of Commerce, Government of India set up an Expert Group on interaction between trade and competition policy, subsequent to the establishment of a similar group at the WTO, following Singapore Ministerial Declaration of 1996. The Expert Group recommended that there is a need for an appropriate competition law to protect fair competition and to check anti-competitive practices, many of which could surface during the implementation of WTO agreements. A sound and effective competition law was considered the need of the hour (Agarwal, 2005 and Mehta, 2006).

In view of the above, the government appointed a High Level Committee on competition policy and law under the chairmanship of SVS Raghavan, which is known as the Raghavan committee, in October 1999 to advise a modern competition law for the country in line with international developments. The committee recommended a new competition law, which was enacted, and it came into force in January, 2003. The new legislation aims to promote and sustain competition in markets by preventing anti-competitive practices and maintaining competitive environment. The Competition Act improves its predecessor in many ways (Bhattacharjea, 2004 and Dhal, 2008).

The importance of competition policy has been increasingly recognised, especially in developing countries. Until recently, many developing countries followed industrial policies that deliberately limited competition by restricting imports and the entry of new firms. This was achieved by policies such as import duties and import licensing; reservation of certain areas for the public sector; investment licensing for the private sector and restrictions on FDI. The economic liberalisation has increased the need and relevance of competition policy because while the liberalisation unleashes competitive forces, in the absence of safeguards, this may also provide scope for unfair competition. Competition policy is being shaped by the globalisation of markets, lower barriers to trade as well as investment, rapid technological change, government downsizing and the emergence of the demanding well-informed consumer. Competition policy has been accepted as a tool for addressing competition problems in transition
economies, which are now characterised by extensive privatisation and deregulation. Presently around 106 countries have working competition laws (Peter, 2010).

The process of globalisation and liberalisation has brought a considerable awareness towards improving the competitive process in developing economies such as India. Until recently, most of the developing countries have operated without a structured competition policy, and have justified the interventions by the state over economic activities. The task of creating and maintaining an active competitive environment and developing a competition policy seems to be challenging in developing countries, particularly in the presence of many other competing alternatives, such as sectoral regulations, in ensuring a competitive environment. To what extent the new competition policies are helpful in enhancing investment and technological capabilities of firms and sectors are issues of concern.

In the light of the above discussion on the role of competition policy for market and industrial contestability, as well as stimulating industrial competitiveness, the present study aims at analyzing the nature and evolution of India’s competition policy, particularly since the introduction of economic reforms during early 1990s; and also to assess its effectiveness in augmenting the competitiveness of Indian industries.

**Objectives of the Study**

The specific objectives of the study are:-

- To study the role and relevance of India’s competition policy in stimulating industrial competitiveness.
- To study the components and the functioning of a broad front competition policy in India.
- To analyse the competitiveness of Indian industry in the context of a global perspective of industrial competition in the pre and post reform periods.
- To point out any gray areas in the competition policy and to suggest remedial measures for survival and growth of industry in the competitive environment.

**Chapterisation Scheme**
1. Introduction.
2. Data, Scope and Methodology.
3. Review of Literature.
4. Need and Constituents of Competition Policy - its Historical Evolution in India and Role of New Competition policy in the Framework of WTO.
6. Effectiveness of India’s New Competition Policy in Augmenting the Competitiveness of Indian Industry
8. Summary and Conclusions.

Data base and Methodology

The present study spans over the period from 1975-76 to 2006-07, which has been further divided into two sub-periods on the basis of the paradigm shift in macroeconomic policy regime governing the Indian economy: i) Pre-reforms period (1975-76 to 1990-91); and ii) Post-reforms period (1991-92 to 2006-07). The study makes use of Annual Survey of Industries (ASI) data at the three-digit level for the registered industrial sector. The EPW research Foundation has created a systematic electronic database using the results from the ASI for the periods 1973-74 to 2003-04, which has been extensively used in the present study. The Variables used in this study relating to the Indian manufacturing sector such as output; emolouments; capital, revenue; fuels consumed; materials consumed, etc. have been drawn mainly from this database as well as various publications of CSO. Data regarding exports, imports, FDI, number of patent applications, R&D and advertising expenditure have been culled from RBI Bulletins and the publications of Department of Science and Technology (GOI) including R&D Statistics and R&D in Industry. Besides these, data relating to peak tariff rates; bank rate; cash reserve ratio; prime lending rate; number of mergers; number of industries reserved for public sector; number of industries under licensing regime; disinvestment proceeds; corporate tax rates, have been culled from various issues of Economic Surveys, RBI publications and annual reports of Ministry of Company affairs.
All nominal figures have been deflated by using appropriate deflators by considering 1980-81 as base year. The variables used in the present study for the research have been considered as defined by the ASI.

The present study broadly consists of two parts:

- Measurement of Industrial Competitiveness; and
- Impact of India’s New Competition Policy on Industrial Competitiveness.

The following variables, indices and technical coefficients have been used to measure the competitiveness of the Indian manufacturing industrial sector:

16. Total Factor Productivity (TFP) – It indicates the weighted average combination of inputs to produce a certain level of output. In the present study, TFP is calculated with the help of Tornquist- Divisia index.

17. Index of Industrial Production (IIP) – It represents the changes in the quantum of production in the industrial sector over a given period of time with reference to a base period.

18. Capital Deepening - Capital deepening ratio or capital intensity represents the relationship between capital and labour in a particular factor mix.

19. Efficiency Measuring Ratios - For determining the efficiency of manufacturing sector the relationship of gross value added to output and gross value added to capital is examined.

20. Export Intensity - Manifesting in the ratio of manufactured export earnings to Sales/Revenue, is expected to have a direct bearing on industrial competitiveness.

21. Profitability – It is calculated as the ratio of contribution of capital (gross value added minus emoluments) to gross fixed capital.

22. Manufactured Exports to Total Exports - It represent relationship between manufactured exports and total exports.

23. R&D Intensity - R&D intensity for a firm is measured as the ratio of R&D expenditure to its total revenue.

24. Advertising Intensity - It represents the relationship between advertising expenditure and sales turnover of industry.
25. Labour cost – It is the proportion of labour cost in total cost of output.
26. Average Cost of Production - is an effective indicator of competitiveness as it shows the cost competitiveness of the manufacturing sector.
27. Skill Intensity- It is the ratio of skilled man force to total employees.

After measuring the industrial competitiveness by using above variables, a Composite Competitiveness Index is formulated with the help of Principal Component Analysis (PCA). After the formulation of composite competitiveness index, multiple regression (step-wise) analysis is deployed by regressing independent chosen variables of competition policy on weighted combined competitiveness index as dependent variable.

The following variables as measure of competition policy have been used in the present study:-

1. Trade Openness – Total Trade to GDP ratio.
2. Domestic Investment Policy – Gross fixed capital formation to GDP ratio.
3. Product Dereservation Policy – Number of products reserved for small scale industry.
4. IPRs policy – Number of patents applications filed.
5. Industrial Deregulation Policy – Number of industries under licensing regime.
6. FDI Policy – FDI to GDP ratio.
7. Privatisation Policy – Total disinvestment proceeds to capital employed of Public enterprises.
9. Merger Policy – Number of mergers.
10. Fiscal Policy – Peak tariff rates
11. Taxation policy – Corporate tax rates.
12. Exit policy – Number of sick industrial units.

**Major Findings**

1. The competitiveness of the Indian manufacturing sector in terms of TFP, industrial production and export intensity has shown significant improvement in the post reform period as compared to the pre reform period.
2. The average annual growth rate of TFP for the entire study period is found to be 3.48 percent, which was 2.89 percent during pre-reforms period and 4.00 percent in the post reforms period. It indicates improvements in the productivity as well as industrial competitiveness in the post reforms period as a result of deregulation of the manufacturing sector and more efficient allocation of resources.

3. On comparing the overall annual average growth rate, IIP shows upward trend i.e. 6.67 percent in the post reform period as compared to 5.97 percent during pre reforms period. The overall growth rate of IIP during the entire study period is 6.34 percent. It exhibits that economic reforms have enhanced the output performance and competitiveness of the Indian industrial economy.

4. Capital intensity jacked up from 16.71 in 1991-92 to 58.93 in 2006-07. The increase in capital intensity in the liberalised regime is primarily because of excessive influence of capital inflow into the industry caused by reduction in the cost of capital due to financial market liberalization and indicates improved competitiveness in the post reforms period.

5. The export intensity which was 4.68 percent in 1975-76 expanded to 8.61 percent in 1990-91. This increase was mainly attributed to the liberalisation measures initiated in the Indian industry ensuing move towards foreign markets to sell their products. Similarly, during post reforms period it zoomed from 10.83 percent in 1991-92 to 15.95 percent in 2006-07. The liberalisation measures and depreciation of real effective exchange rate made exports more rewarding resulting in to enhanced export intensity. It reveals enhancement in the competitiveness of the manufactured export in the international markets.

6. On the other hand other variables which include efficiency; R&D and advertising intensities have shown declining trends in the post reform period indicating low competitiveness.

7. Inspite of industrial’s policy emphasis on R&D, its intensity has explained declining trend. During the overall study period between 1975-2007, it declined at an annual rate
of over 4 percent in the public sector, while the decline in the R&D intensity of private industry was little less sharp. This implies low competitiveness of the Indian industry.

8. Advertising intensity in public industry is around 0.05 percent to 0.06 percent during pre reforms period, growing at negative rate of 1.24 percent. On the other hand advertising intensity increased from 0.40 to 0.61 during pre reforms period in private industry at an annual rate of 1 percent and at 7.7 percent in the post reforms period. Thus indicates faster advertising intensity growth in private sector as compared to public sector. It demonstrates improved competitiveness of private sector on account of advertising intensity.

9. The Indian industrial competitiveness index shows the overall annual growth rate of 5.10 percent during entire study period. After comparing the average annual growth rate during pre and post reforms period, it is found that average annual growth rate during pre reform period was 3.40 percent and during post reform period it was 6.40 percent. It evidently indicates that industrial competitiveness of the Indian industry has improved significantly in the post reform period as compared to pre reform period.

10. The regression coefficients of industrial policy, fiscal policy and repo rate are negative and significant. It signifies that one unit increase in number of industries reserved for public sector; peak tariff rate and repo rate would lead to decline in industrial competitiveness. It indicates that more liberalisation measures need to be adopted in order to enhance the industrial competitiveness. These measures would stimulate the competitiveness of the Indian industrial sector.

11. The regression coefficients of the investment policy variable used in the study is negative and significant. In the investment policy both domestic and foreign investment performance is taken as a variable of competition policy. It indicates that increase in the investment whether domestic or foreign would lead to decline in the industrial competitiveness. Such outcome may be due to the under utilisation of the existing capital in the Indian manufacturing sector.

12. Free entry end exit policy is important so that only efficient units should exist in the market and inefficient units should be closed down. In the present study, exit policy is a
significant variable which indicates that more exit of inefficient industrial units would increase the competitiveness of the Indian industrial sector.

13. The observed value of Adjusted R explains that about 99 percent variation in competitiveness has been explained by the significantly influencing variables i.e. industrial policy; fiscal policy and financial policy. The other variables of competition policy which have been dropped in the preceding steps are irrelevant for stimulating the industrial competitiveness. These variables are explaining a scant amount of variation in the observed industrial competitiveness.

Conclusion and Recommendations

Indian manufacturing has traversed some distance from the days of licensing and national control until early eighties through de-licensing in eighties and early nineties and the opening up, post-liberalization. Each of these phases were in the direction of subjecting Indian manufacturing firms to higher levels of competition from global firms as well as removing constraints on their operations. The competitiveness has to be strengthened by having an appropriate policy environment in the background of global challenges.

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. Increased efforts towards more R&D efforts are essential to enhance the competitiveness of the Indian industry. Substantial investment in R&D is required to improve the innovative capacity and support the industry in attaining competitiveness.

2. The industrial infrastructure needs to be improved to improve the industrial performance as well as provision of competitive edge to the economy. New initiatives for encouraging entry of more private sector participation and public-private partnership (PPP) should be explored.

3. There is a dire need to simplify taxation laws and procedures relating to the consolidation or restructure of the industrial units. There is also need to address the policy and institutional barriers which impede growth of manufacturing sector.
4. The labour reforms should be carried out in order to accelerate investment, enhance productivity and competitiveness.

5. The enhancement of the industrial competitiveness is not possible without the development of small scale industry. There is an urgent need to develop small scale sector through appropriate measures and removal of restrictions on small scale industry. Modernisation and technology upgradation is required to enhance the competitiveness.

6. Technology intensity of exports must be enhanced to improve export competitiveness. India’s manufacturing exports largely comprise low technology induced goods. High technology exports are the largest foreign exchange earners for various countries.

7. In order to augment industrial competitiveness in the global market it is necessary to minimise cost of production as well as improvements in the quality of manufactured goods.

8. Skill development of the workforce is also one of the important factors for enhancement of the competitiveness of manufacturing sector. More attention should be given towards skill building.

9. The government needs to implement appropriate policies to ensure stabilisation in the economy to promote competitiveness of the industrial sector.

10. A clear policy in respect of public sector should be framed concerning the internal reforms supported by the government.

11. More liberalisation measures need to be initiated to exploit the opportunities in the competitive markets and increase the market share in the international market.

12. Effective control over anti-competitive practices both at national and international levels is must to provide level playing field to the domestic manufacturers.

13. Proper implementation of competition policy by the government with the intention to promote free and fair competition is the great need of the hour.

To conclude, competitiveness is a multi-dimensional concept which requires a coordinated policy framework for its attainment. The new economic reforms focused on promoting competition have significant impact on the augmentation of the industrial competitiveness. Competition policy is must for ensuring free and fair competition to create level playing field for the global and domestic players in the liberalised regime. More efforts
through effective competition policy would be of great significance for augmentation of the competitiveness of the Indian industry both at national and global levels.