CHAPTER – II

ECONOMIC REFORMS
OF 1991 AND ITS
EFFECT ON INDUSTRY
CHAPTER - II

ECONOMIC REFORMS OF 1991 AND ITS EFFECT ON INDUSTRY

2.1 INTRODUCTION:-

The concept of Globalisation has nearly overtaken all the streams of economic policies in recent times in the glob. It has affected directly or indirectly all major economic policy decisions of the Governments every country. In the recent world history never such a powerful phenomenon affected developing countries and their financial, trade institutions and their policies as well. The process of globalisation has presented an entirely new flow of thinking towards foreign investments, trade, technology, employment and like aspects. In all the spheres of human life globalisation plays a significant role. The perception, that a country's progress depends not only on the size of its domestic resources, but also to a considerable extent on what it can obtain from other countries, is much stronger today than ever in the past.

The year 1991 is a landmark year in India's economic history. In this year economic reforms were initiated by Dr. Manmohan Singh, the then Finance Minister of India. These reforms incorporated changes in trade, industry, finance and fiscal affairs. It aimed at expanding private sector industrial establishments through open competition in the world economy and also the globalisation of Indian economy.

In Indian context, globalisation implies opening up the economy to Foreign Direct Investment (FDI) in different fields of economic activities in India, removing constraints and obstacles to the entry of Multi National Companies (MNCs) in India, allowing
Indian companies to enter into foreign collaborations in India and also encouraging them to set up the joint ventures abroad.  

2.2 NATURE AND SCOPE OF LPG:--

This NEP and consequent NIP introduced the concepts of Liberalisation, Privatisation and Globalisation in Indian economy. Therefore it is desirable to study these concepts.

2.2.1 LIBERALISATION:--

Liberalisation essentially involves a greater role for the market forces in the functioning of the institutions. It is another name for laissez faire, a 19th century doctrine which opposed the Government interference in economic affairs beyond the minimum necessary. It is presumed that the market is more effective than the Government in achieving economic and social goals. However, it may be noted that in a developing country like India with large scale poverty, the market system may not help a large chunk of the population because market can bring equilibrium between demand (backed by purchasing power) and supply, and not a balance between need and supply.  

This fact was recognised by Dr. Manmohan Singh, then Finance Minister who helped in ushering the liberalisation process in country. In his first budget speech of July 24, 1991 he remarked: “In highlighting the significance of reform, my purpose is not to give a fillip to mindless and heartless consumerism we have borrowed from the affluent societies of the west. We cannot afford it. In a society where we lack drinking water, education, health,
shelter and other basic necessities, it would be tragic if our productive resources were to be devoted largely to the satisfaction of the need of a small minority." He went on to add that "a reformed price system can be a superior instrument of resource allocation than quantitative controls. But markets can only serve those who are part of the market system. In our country many people live on the edges of a subsistence economy. We need credible programmes of direct Government intervention focusing on the need of these people. We have the responsibility to provide them with equality social services such as education, health, safe drinking water and roads."

In furtherance of liberalisation the Government assured through this policy of NIP\(^4\) that it will continue to pursue a sound policy framework encompassing encouragement of entrepreneurship, development of indigenous technology through investment in research and development, bringing in new technology, dismantling of the regulatory system, development of the capital markets and increasing competitiveness for the benefit of the common man. The spread of industrialisation to backward areas of the country will be actively promoted through appropriate incentives, institutions and infrastructure investments.

The small sector was provided enhanced support so that it can attain economic efficiency and technological up-gradation. The objective of NIP also provided that foreign investment and technology collaboration will be welcomed to obtain higher technology, to increase exports and to expand the production base. Thus liberalisation provided an opportunity to Multi-National corporations, to expand their business in India. The entry of MNCs created competition for Indian entrepreneurs.

The Government took various policy decisions to implement and strengthen liberalisation. Through Industrial Policy of 1980 the process of liberalisation started but it was strengthened by further policy. In 1991, Industrial licensing was abolished for all projects.

except for a short list of industries related to security and strategic concerns, social reasons, hazardous chemicals and the like. Thereby the license-raj came to an end. Now the concept of monopoly involving limit on the assets of large industrial houses for permitting investment, does not exist any longer. Except for certain items reserved for small-scale sector, there is no restriction on any entrepreneur regarding production.

All controls and restrictions on raising capital within the country and also to very great extent outside the country, no longer remained in existence. Subject to certain items, imports and exports are now free.

In the sphere of foreign investment so many changes are introduced, leading to achieve the liberalisation. The foreign direct investment is now permitted through automatic route. In the changed global scenario of industrial and economic co-operation is marked by mobility of capital. Therefore the Government welcomed foreign investment for country’s industrial growth.

As stated earlier in this chapter in order to invite foreign investment in high priority industries, requiring large investments and advanced technology, it has been decided to provide approval for direct foreign investment up to 51% foreign equity in such industries. Such a framework will make it attractive for companies abroad to invest in India.\(^5\)

Subject to a negative list, imports and exports are also now free. The negative list is also made short from time to time. The Government has also provided automatic approval for technology agreements related to high priority industries with specified parameters.

Thereafter from time to time, The Government implemented various liberalisation measures like, in the year, 1991, Foreign Exchange Management Act (FEMA) replaced the Foreign Exchange

\(^5\) supra note 5, p.7.
Regulation Act (FERA). This was in order to have foreign exchange regulations in conformity with the liberalised market economy.

2.2.2 PRIVATISATION:-

Privatisation is a fuzzy concept. It covers a wide range of ideas, programmes and policies. In the broad sense of term, privatisation is roll-back of the state in the lives and activities of citizens and strengthening the role of markets. In the narrow sense, privatisation is transfer of ownership from the public to private sector, or transfer of control over assets or activities as in the case of privatisation through leasing, where ownership is retained, leaving management of assets and activity to private parties.\(^6\)

Privatisation changes the role of the state. To monitor and regulate the privatised system is a complex and difficult job. The state is under an onerous responsibility of ensuring that a meaningful competition prevails in the privatised sectors of the economy. The state has to keep check on the vulnerable sections of the society that they are not unduly adversely affected.

2.2.3 GLOBALISATION:-

The word Globalisation has become a key word in economic debates. Different scholars have different perspectives on Globalisation. As per C.S. Venkata Ratnam\(^7\) the origin of globalisation can be traced to the period of colonization in the 16\(^{th}\) century. While globalisation means many things to many people, one measure of globalisation is the economic integration across the globe in terms of free movement of capital, technology, products and people. In this sense, however globalisation remains a myth. If foreign trade and capital flows signify globalisation the world has

\(^6\) Supra note2, p. 290.
been more globalised during 1870-1914 than what we experience today. During those days, capital, trade and labour were all free to move from one country to another. Despite the formation of WTO and the reduction of tariffs, many non-trade barriers remain and 85% of the world’s resources, investments and trade continue to be controlled by countries with about 15% of the population. The triad countries—North America, European Union, and Japan—dominate the world in terms of access to and control over investment trade and technology. Thus by defining Globalisation the Scholar C. S. Venkata Ratnam has traced its origin to 16th century.

In the opinion of Francois Chesnais⁸, “Globalisation is best defined as the international economic and political regime which follows from the adoption by practically all the Governments and political elite in the world, of the policies of liberalisation, deregulation and privatisation as well as of the ideology and domestic politics of laissez faire and enrichissez-vous (enrich yourself). Globalisation has not come about as the result of a natural evolution out of earlier forms of what the Latin languages name internationalisation. Globalisation has of course created, among other things, a broader playing ground as well as a whole new set of very favourable ‘rules of the game’ for international production (eg. Production abroad by transnational corporations), but it is something so much broader and all encompassing.

Mr. M. Suppermaniam⁹ has defined the term globalisation as a process relating to:

- The integration of economies worldwide where world economy is viewed as a single market and protection are with regional and sub-sectors rather than a set of national economies lined by trade and investment flows.

⁹ M. Suppermaniam, Globalisation and Economic Liberalisation Implications on the Public Service www.jpa.gov.my
• Cross border operations of economic activities- production, investment, financing, technology utilisation and marketing.

• Optimal utilisation of global resources including competitive sourcing of inputs for achieving cost competitiveness in production, economies of scale in operations and efficient technology utilisation.

• Easy movement of product and factor flows across border involving merchandise trade, services, investment, financial capital, technology and labour.

• The internationalisation of consumption - consumers are buying more foreign products.

• Competition, production and markets become global in nature and goods and services become less distinguishable or identifiable with their country of origin.

This is very exhaustive definition of Globalisation, which has covered major aspects of Globalisation.

In India for four decades after independence, we built heavy barriers to protect domestic industry. The Indian industry grew in an atmosphere where there was no competition from the rest of the world and it was a seller's market. In 1991, the Government decided to change its economy and plug into the global market. This was mainly due to the Soviet Union, which resulted in most of the countries, which were earlier following communist philosophy, to adopt market-friendly economic policies. Simultaneously, the WTO was set up, of which India is a member, supported Globalisation.

Globalisation can be summed up as world economic integration through free movement across national borders of: Financial Capital represented by investment in capital market and money markets, physical capital represented by plant and machinery, technology and labour.
2.3 HISTORICAL BACKGROUND OF LIBERALISATION, PRIVATISATION AND GLOBALISATION:-

While tracing the origin of the current wave of economic globalisation, one has to go back to the days of the Great Depression of the thirties. In order to avoid the recurrence of similar depressions, many American industrialists pleaded with the U.S. Government to ensure domestic American economy having sufficient access to foreign markets and raw materials. U.S. Corporate leaders, with the help of the foreign affairs department of the U.S. Government, organised an independent body called the Council on Foreign Relations. This Council, with the help of the Rockefeller Foundation, produced about 682 confidential memoranda for the Government on various aspects of foreign economic relations. This was the situation prevailing before the Second World War.

Immediately after the Second World War, the U.S. gave massive Marshal Aid to Europe and procured most of the orders of post-war reconstruction for U.S. corporations. In 1954, a Bilderberg Group was formed in Europe at the initiative of U.S. Multinationals. This group continued its dialogue with policy makers of different western countries on all economic issues. In 1973, at the initiative of David Rockefeller, a Trilateral commission was formed in which were represented all the leading bankers in the world, top executives of multinationals, media barons, political leaders and policy makers. Japan was also invited to join this group. All these bodies-from the Council of Foreign Relations, to the Tri-lateral Commission, have undoubtedly influenced the thinking of policy makers in the world and have succeeded in putting across ideas of LPG and the WTO.

During the Eighties, the Centre for International Private Enterprise (CIPE) and the International Centre for Economic Growth (ICEG) were promoted to propagate ideas of privatisation and globalisation across the globe, at the initiatives of the U.S.
Government. They released a large number of publications and research studies, and seminars and discussions were held in different countries to promote these ideas. Multinationals needed new markets for their products, and access to new sources of raw materials. It will not perhaps, be wrong to say that these efforts paved the way for globalisation, we see today. The World Bank and International Monetary Fund (IMF) have also helped to speed up the process. In the name of stabilisation and structural adjustment programmes, these institutions forced many countries that were facing debt crises in 1980s to create conditions for liberalisation in the developing countries. Both these institutions continue to function even today. In the early 1990s, when most South Asian countries were heavily burdened by deficit and debt, they were forced to enter into agreements with the IMF and the World Bank to open up their economies to the world trading system. This process of outward orientation and free flow of capital and trade culminated in January 1995 when the WTO was established

2.4 BEGINNING OF ECONOMIC REFORMS IN INDIA:-

On this background let us see what has been the response of India to the winds of globalisation. Though other countries opened their economies in the 80s and China in 1978, India continued with its protective policies till 1990. It was only in July 1991 that it embarked on the NEP and started making efforts to integrate the Indian economy with the world economy. Thus, the year 1991 had been regarded as a landmark. Let us now examine the nature of these reforms and their impact on Indian economy.

During 1980s, India had a fairly good economic performance. But towards the last years of the decade, and particularly in 1990-

91, Indian economy entered an unprecedented liquidity crisis. This was due to the combined effect of many factors. The economy of the Soviet Union and that of most of the East European countries collapsed towards the end of the eighties. Some of them were India's major trading partners. Then Gulf war in January 1991 resulted in rising oil prices and there was a virtual stoppage of remittance from Indian workers in the Gulf. The strength of India's credit rating in international markets also fell considerably. In these markets, there was an erosion of confidence in the strength of India's economy. As a result, India found it difficult to raise funds in the international markets. Moreover, there was an outflow of the deposits of Non-resident Indians from Indian banks. India was on the verge of default on external payment liabilities. As per the Statistical Outline\textsuperscript{11}, the external debt of the Government of India zoomed upwards from $20.58 billion in 1980 to $38.7 billion in 1990. Therefore India had to borrow from the IMF under the standby arrangement and also from the Bank of England by mortgaging the gold reserves of the country. Even the emergency measures were taken to restrict imports.

This was the genesis of the reforms that started in 1991, which contained a detailed package of economic reforms.

According to Neeraj\textsuperscript{12}, the development model implemented in India under the leadership of Pandit Nehru was essentially a model of capitalist development. Its main features the mixed economy, the Industrial Policy Resolution of 1948 and 1956 were based on an economic plan proposed by a committee set up by the Indian capitalists themselves. The aim of this model was to promote a broad based development of indigenous industry and agriculture along capitalist lines. To achieve this, the state actively intervened in the economy in order to ration scarce resources and direct them to

\textsuperscript{11} Statistical Outline of India, 1999-2000, Tata Services Ltd., Mumbai, p.177.

\textsuperscript{12} Neeraj Jain, Globalisation or Recolonisation? Published by Aika Joshi Pune. 2004 p.20.
planned uses, curb the power of monopoly houses and limit the penetration and influence of foreign capital.

Under the compelling circumstances, the Government of India realised that there was no alternative but to undertake drastic economic reforms. Thus on July 24, 1991, India embarked on the new economic policy and started making efforts to integrate the Indian economy with the world economy.

2.5 NEED AND OBJECTIVES OF ECONOMIC REFORMS:

At the prevailing time period, phenomenal changes were taking place in the field of global financial and trading system. More and more countries were opening up their economies to outsiders. There was worldwide movement away from multilateral trading system towards fragmented trade and commercial policies. Most of the countries around the world introduced liberalised policy framework. The private sector was also expanded with new policies. Many third world countries were facing shortage of foreign exchange which forced them to look for the alternative means of obtaining their imports. Thus trade among different countries increased.

The present economic crisis is felt worldover, which has included economists, social scientist and the technicians to find out ways and means to overcome the crisis. Generally globalisation and economic reforms are welcomed. Earlier the economy was concentrated on different growth policies, non market centralized economy or partially controlled market against this planned economic growth models have resulted in the development of new concepts like 'globalisation', 'liberalisation' and 'economic reforms'.

In India, the period after 1980-91 was marked by severe balance of payment difficulties. The economic reforms under Rajiv Gandhi regime did not result in desired ends. The balance of trade
deficit, instead of narrowing down, increased. As per the Sixth plan (1980-85)\textsuperscript{13} the average deficit in trade balance during the plan period was of the order of Rs. 5,930 Crores, it jumped to Rs. 10,840 crores during the Seventh Plan (1985-90). There was also decline in the receipts on invisible account, from Rs. 19,070 crores during the Sixth Plan to Rs. 15,890 crores during the Seventh Plan. The country was facing with a serious balance of payment crisis. The political uncertainties existing in India shook the investor's confidence in Indian economy. The non-resident Indians started withdrawing their deposits from India adopting various measures including pledging gold abroad, the crisis could not be stopped. The Foreign exchange reserves in June 1991 were less than sufficient for meeting two weeks of import requirements. The default in debt servicing occurred. This default could be avoided only if credit was made available from the IMF or the World Bank. Thus India was forced to approach the World Bank and the IMF to provide a huge loan to bring India out of crisis. The credit was made available from the IMF or the World Bank, but on their own terms and conditions which necessitated the adoption of a stabilization and structural adjustment programme by India.

The Congress (I) Government after resumption of office on June 21, 1991, adopted a number of stabilisation measures designed to restore economy to sound position. The Government adopted such an economic strategy in order to reduce fiscal imbalance which was supported by reforms in economic policy. The economic reforms were necessary to bring a new element of dynamism to the growth process in the economy. In his Memorandum on Economic Policies submitted to IMF, Dr. Manmohan Singh, the then Finance Minister proposed. "The thrust will be to increase the efficiency and international competitiveness of industrial production, to utilize foreign investment and technology to a much greater degree than in the past, to improve the performance and rationalize the scope of the

\textsuperscript{13} \text{www.planningcommission.nic.in}
public sector, and to reform and modernize the financial sector so that it can more efficiently serve the needs of the economy". ¹⁴

In the industrial sector the Industrial Policy was announced on July 24, 1991. The restrictions imposed on entrepreneurs, which acted as a barrier to entry and growth of the enterprise was sought to be changed by the Industrial Policy of 1991. The Policy objectives and various measures introduced are discussed in the same chapter at the appropriate place.

Like many developing countries, India has slowly moved towards a more market-oriented, market friendly economy, liberal economic policies, with minimised the Government control, privatising public enterprises, lower taxes, deregulation of the labour market, and free and open foreign trade.

2.6 REVIEW OF PRE 1991 INDUSTRIAL POLICIES AND INDIAN PLANNING:-

The concept of ‘Industrial Policy’ is comprehensive and it covers all those procedures, principles, policies, rules and regulations, which control the industrial undertaking of a country. The Industrial Policy in India has been evolved out of the specific needs of the situation which will suit the requirements of planned economic development and the principles of social justice. The industrial policy decides pattern of industrialisation. It outlines and incorporates fiscal and monetary policies, the tariff policy, labour policy and the Government's attitude not only towards external assistance but the public and private sectors also. After the introduction of NEP in 1991, there were changes made in industrial policies according to the requirement of economy of our country. To overcome the deficiencies and to enter into global market, finally this NEP was introduced for the reasons mentioned hereafter. On

this background it is necessary to study industrial and economic policies prior to 1991.

2.6.1 INDUSTRIAL POLICY RESOLUTION, 1948:-

The attainment of independence by India on August 15, 1947 made a change in industrial scenario of the country. Indigenous enterprises started working as per their own wisdom. Though population was increasing, the industrial production had declined.

The relative backwardness of industrial development in India may be judged from the fact that in 1948-49 factory establishments accounted for only 6.6 percent of total national income. The total labour force engaged in such establishments was about 2.4 million or 1.8 per cent of the working population in the country. While in the aggregate India's industrial output may look massive, yet per head of population is very much lower than the industrial output in advanced countries.15

In 1948, the Government of India introduced the Industrial Policy Resolution. This industrial policy resolution outlined the approach to industrial growth and development. It emphasised the importance to the economy of securing a continuous increase in production and ensuring its equitable distribution.

This Industrial Policy Resolution of April 1948 contemplated a mixed economy, reserving a sphere for the private sector and another for public sector. The resolution divided the industries into four broad categories -

The resolution lists certain industries like, the manufacture of arms and ammunitions, the production and control of atomic energy and the ownership and management of railway transport as being reserved exclusively for the Central Government. In the cases of

---

15 The Government of India, Planning Commission, First Five Year Plan (1951-56) Ch. XXIX.
certain other industries also such as coal, iron and steel, aircraft manufacture, ship-building, manufacture of telephone, telegraph, wireless apparatus and mineral oils, the State, including the Central and State Government and other Public Authorities were responsible for further development except to the extent that it regards the co-operation of private enterprise necessary for the purpose. The rest of the industrial field was open to private enterprise, individual as well as co-operative, but the State can intervene whenever the progress of any industry under private enterprise is found to be unsatisfactory. Central Regulation and Control is envisaged for 18 specified industries of special importance from the point of view of the investment and technical skill involved. The Government believed that within frame work of this policy, it is possible to have a programme of industrial development which meets the countries present needs.16

The main thrust of this industrial Policy was to lay the foundation of a mixed economy in which both private and public enterprises would work together to increase industrial development.

2.6.2 INDUSTRIAL POLICY RESOLUTION, 1956:-

Eight years have passed since the declaration of industrial policy of 1948. These eight years have witnessed many important changes and development in India. The Constitution of India has been enacted in the year 1950. Planning has proceeded on an organised basis and the First Five Year Plan was completed. Parliament has accepted the socialist pattern of society as the objective of social and economic policy. These important developments necessitate a fresh statement of industrial policy. In order to realise this objective, it was essential to accelerate the rate of economic growth and to speed up industrialisation and in particular to develop heavy industries and machine making

16 supra note 3.
industries, to expand the public sector, and to build up a large and growing co-operative sector.

This provided the economic foundations for increasing opportunities for gainful employment and improving living standards and working conditions for the mass of the people. In order to reduce disparities in income and wealth, it was felt necessary to prevent private monopolies and concentration of economic power in different fields in the hands of small numbers of individuals.\textsuperscript{17}

After considering all aspects in consultation with the Planning Commission, the Government of India decided to classify industries into three categories, having regard to the part which the State would play in each of them.

Schedule A - First Category included industries the future development of which will be the exclusive responsibility of the State.

Schedule B - The Second Category consisted of industries which will be progressively state owned and in which the State will generally take the initiative in establishing new undertakings, but in which private enterprise will also be expected to supplement the efforts of the State.

Schedule C - The Third category included all the remaining industries and their future development was left to the private sector.

In spite of clear cut division of industries under the three schedules there were no water tight compartments. The room for exception was made in the sense that, it was open to the State to start any industry not included in Schedule A and Schedule B when either for the planning purpose it will so require or for other important reasons. In appropriate cases, private units might produce an item falling within Schedule A for meeting their own requirements or as bye products. In addition to this heavy industries,

\textsuperscript{17}www.eaindustv.nic.in
in the public sector could obtain some of their requirements of lighter components from private sector while the private sector in turn would rely for many of its needs on the Public Sector. Unlike the policy of 1948, State had to act as a senior partner under this policy. Also the public and private sectors were expected to work together. It seems the basic objective behind this was to create mixed economy in India.\textsuperscript{18}

2.6.3 INDUSTRIAL POLICY RESOLUTION, 1977:

For the last 20 years, the Government Policy in the sphere of industry had been governed by Industrial Policy Resolution of 1956. It laid emphasis on decentralisation and on the role of small-scale, tiny and cottage industries. The learned author, Rudder Dutt\textsuperscript{19}, explained the situation then existing as, "Unemployment has increased, rural-urban disparities have widened and the rate of real investment has stagnated. The growth of industrial output has been no more than three of four per cent per annum on the average. The incidence of industrial sickness has been widespread and some of the major industries are worst affected."

In the 1977 Policy Statement it was noted that though some elements of the Industrial Policy Resolution of 1956 still remained valid, certain structural distortions had crept in the system. The new policies were directed towards removing these distortions.

In March, 1977, the Janata Party assumed the power at the Centre. This Government announced a New Industrial Policy in December 1977. This policy provided for closer interaction between the agricultural and industrial sectors. It gave highest priority to the generation and transmission of power and an analysis of products was made for the purpose of identifying as to which products are capable of being produced in the small scale sector. The list of

\textsuperscript{18} supra note 7.

\textsuperscript{19} Rudder Dutt and K.P.M. Sundharam, 'Indian Economy' S.Chand & Co. Ltd., New Delhi, 52 ed., 2006 p.178.
industries exclusively reserved for the small scale sector was expanded from 180 items to more than 500 items. Also within the small scale sector, a tiny sector was also defined with investment in machinery and equipment up to Rs. 1 Lakh and situated in town of less than 50,000 populations.

In this policy special legislation to protect cottage and household industries was also proposed to be introduced twenty two village industries were brought under the purview of Khadi and Village Industries. The separate areas kept for large scale industry such as steel, non-ferrous metals, cement, oil refineries, capital goods industries, high technology industries such as fertilizers, pesticides and petro-chemicals and other industries that are outside the list of reserved items for the small scale sector, such as machine tools and organic and inorganic chemicals.

It further clarified that; foreign companies that diluted their foreign equity up to 40% under the FERA would be treated on par with Indian companies. As indigenous technology was fully developed in some fields no foreign collaboration in financial or technical matter was considered necessary. Only in highly export oriented and/or sophisticated technology areas fully owned foreign companies were permitted.

In order to secure balanced regional development it was decided not to issue industrial licenses to new industrial units for location within certain limits of large metropolitan cities. Provisions were made to ensure adequate returns to investors by regulating prices in agricultural and industrial products. Some provision for sick units was also made.

This policy statement seems to be a mere extension of the Industrial Policy of 1956, with some alterations. It gave encouragement to small industries and thereby reduced concentration of economic power. It is observed that, contrary to common expectations, the Industrial Policy Statement of 1977 did not contain any fundamental change in policies regarding foreign
companies and multinationals but instead continued the same policy followed since 1948.

2.6.4. THE INDUSTRIAL POLICY RESOLUTION, 1980:-


i) Optimum utilisation of installed capacity,
ii) Maximum production and achieving higher productivity
iii) Higher employment generation
iv) Correction of regional imbalance
v) Strengthening of the agricultural base through agro based industries and promotion of optimum inter-sectoral relationship,
vi) Promotion of economic federalism through equitable spread of investment and dispersal of returns and
vii) Consumer protection against high prices and bad quality.

This policy mainly focussed on growth. It also aimed to regularise the excess capacity installed over and above the licensed capacity. The Government also proposed to allow the privilege of automatic expansion of capacity particularly of core industries. Even 100 % export oriented units were allowed to be set up. This liberalisation of capacity proposed by 1980 industrial policy was welcomed by big business. It chose a more capital intensive path of development and thus, it underplayed the employment objective.

The Industrial Policy of 1980 made a revolutionary change in terms of liberalisation of licensing policy in favour of large business houses, by making them free from the provisions of MRTP and FERA. It allowed liberalisation of licensed capacity in the name of economies of scale and modernisation. Automatic increase was granted to units for the purpose of modernisation.
The concept of broad banding was introduced. It means that though the licenses were issued in terms of broad categories, still they can manufacture any type of item covered so long as total production did not exceed the overall licensed capacity.

The Industrial Policy of 1980 raised the asset limit of MRTP companies. These companies can raise assets from Rs. 20 Crores to Rs. 100 Crores. As a consequence, 112 companies came out of the purview of the MRTP Act. Further the Government also exempted forty nine industries from Section 22 A of the MRTP Act and FERA.

Relaxation of industrial licensing, under this clause Non-MRTP and Non-FERA companies would not be required to obtain industrial licences. The number of industries requiring compulsory licence was also reduced.

In order to promote industrialisation in backward areas, new industrial undertakings were established by giving certain Income Tax relief.

From all these policy measures it is clear that this policy had more practical approach, with growth perspective.

2.6.5 INDUSTRIAL POLICY RESOLUTION, 1991:-

The Industrial Policy initiatives undertaken by the Government since July 1991 have been designed to build on the past industrial achievements and to accelerate the process of making Indian industry internationally competitive. By recognising the strength and maturity of the industry it attempts to provide an incentive for higher growth. The main objectives of this policy were to increase the domestic and external competition through extensive application of market mechanisms and facilitating forging of dynamic relationship with foreign investors and suppliers of technology. This process of reform is ongoing process.

On July 24, 1991, NIP was announced under the leadership was of the then Prime Minister Mr. Narsimha Rao, with main aim of
making free the Indian economy from the clutches of bureaucratic control. It also introduced liberalisation measures with a view to integrate the Indian economy with world economy. The NIP removed restrictions on direct foreign investment as also made the domestic entrepreneurs free from the restrictions of MRTP Act by introducing deregulation policies. All these reforms of industrial policy laid the Government to take a series of initiatives in respect of policies in the following broad areas –

Industrial Licensing
Foreign Investment
Foreign Technology Agreement
Public Sector Policy
MRTP Act

2.6.5.1 INDUSTRIAL LICENSING:-

Industrial Licensing was governed by the IDRA.\textsuperscript{20} The object of this Bill was to provide the Central Government with the means of implementing their industrial policy which was announced in the industrial policy resolution of 1948. The Bill and consequent Act brought under central control the development and regulation of a number of important industries, the activities of which affect the country as a whole and the development which must be governed by economic factors of all India import. The planning of future development on sound and balanced lines is sought to be secured by the licensing of all new undertakings by the Central Government.

The Act came into force on 8\textsuperscript{th} May, 1952. The important provisions of the Act were –

i. No new industrial units could be established or substantial extension to existing plants made without a licence from the Central Government, and while granting licence for new undertakings, the Government could lay down

\textsuperscript{20} Industries (Development and Regulation) Act, 1951
conditions regarding location, minimum size, and the like, if necessary.

ii. The Government could make investigation into certain specified industries or undertakings in industries: (a) which showed, a fall in production, a deterioration in the quality of product, a rise in the price of the product, or which showed tendencies in these directions, (b) which used resources of national importance; and (c) which were managed in a manner likely to do harm to the interest of the shareholders or consumers; and issue proper directions for rectifying the drawbacks.

iii. This Act also empowered the Government to describe prices, methods and volume of production and channels of distribution.

iv. The Act empowered the Government to set up Development Councils for the individual or groups of industries.

Even the State Government was required to take previous permission for establishing new industrial undertakings from the Central Government. The grant of licence or permission may contained such conditions including, the conditions as to take location of the undertaking and the minimum standards in respect of size to be provided therein as the Central Government may deem fit. Even a licensed manufacturer has to obtain a permission or license for manufacturing new article.

The Government was empowered to make investigation into certain specified industries or undertakings which showed a fall in production, deterioration in the quality of the product, a rise in the price of the product or which showed tendencies in these directions. It also investigated into the industries of national importance and was managed in a manner likely to harm to the interest of the shareholders or consumer. After making investigation the
Government can issue proper directions for rectifying the drawbacks.

The Government even could take under its own management the undertakings which failed to carry out its instructions for improvement in management and policies. The Government also could describe methods and volume of production and channels of distribution.

In order to establish a link between private and public sector undertaking a provision was made for setting up Development Councils for the individual or group of industries.

Industries/ units employing less than 100 workers and having fixed assets of less than Rs. 10 Lakhs were not required to obtain any licence. These were the important provisions of the IDRA, 1951.

Even though this act was there in existence big businesses were at an advantage of securing industrial licenses to open or expand undertakings. This intensified concentration, especially as the Government did not have the adequate mechanisms to check it. The planning commission of India in July 1966 appointed Hazari Committee to review the operation of the existing industrial licensing system. The report stated that the licensing policy encouraged foreclosure of licensed capacity by influential and powerful industrial houses who could afford to hold tightly the unutilised licenses. Further in the absence of a policy of revocation of license issued the large industrial houses prevented the entry of new entrepreneurs while they did not fulfil the targets laid down in the plans. It is observed that industrial licensing which was supposed to act as an instrument of industrial development became an obstacle 21.

After a heated Parliamentary debate over this report, the Government, in July 1967, appointed the Industrial Licensing Policy Inquiry Committee (ILPIC), which was asked to look into the licensing and financial structure. This committee reported that – a)

21 Industrial Planning and Licensing Policy Final Report 1967, www.circ.in
No specific instructions had been given to licensing authorities for the purpose of preventing concentration and monopolistic tendencies
and b) The procedures, in fact, nurtured the growth of large industries groups a number of new restrictions were put on the large industrial houses in the industrial licensing policy announced in February 1970. The Industrial Policy of 1980 further liberalised licensing policy.

In this regard it was felt that licensing was unable to check concentration, and suggested that the Monopolies and Restrictive Trade Practices (MRTP) Bill be passed. Thus to set up an effective legislative regime MRTP Act came into force in June 1970.22

With the passage of time, it was noticed that the MRTP Act's objectives could not be achieved to the desired extent. So in June 1977, the Government appointed the High Powered Expert (Sachar) Committee to consider and report the required changes. According to the suggestions of the committee, the MRTP Act was amended in 1948. In addition to this suitable amendments were made from time to time. After the announcement of economic reforms in 1991, the most far reaching, amendment was introduced, which removed the need of the Government approval to establish new undertakings, and also diluted the provisions of the merger and acquisitions clause.

The NIP in its clause 21 stated that in order to achieve the objectives of the strategy for the industrial sector for the 1990s and beyond, it is necessary to make a number of changes in the system of industrial approvals. Major policy initiatives and procedural reforms are called for in order to actively encourage and assist Indian entrepreneurs to exploit and meet the emerging domestic and global opportunities and challenges.

The system of industrial licensing has been gradually shifted from the concept of capacity licensing. Along with this the public sector undertakings were provided more flexibility and private

sector enterprises gradually allowed entering into new fields of activity. For this purpose industrial licensing was abolished for all industries except the industries specified in Annexure II of NIP. It was felt that because of these reforms the Indian economy will benefit by becoming more competitive, more efficient and modern and can achieve rightful place in the world of industrial progress. It also shows that in the sphere of industrial licensing, the role of The Government has been changed.

The compulsory licensing provisions would not apply in respect of the small scale units taking up the manufacture of any of the items of NIP reserved for exclusive manufacture in small scale sector. The NIP has provided a list of industries kept reserved for the public sector.

2.6.5.2 FOREIGN INVESTMENT:

While freeing Indian industry from official controls, opportunities for promoting foreign investments in India should also be fully exploited. It is assumed that foreign investment would bring the advantages of technology transfer, marketing expertise, introduction of modern managerial techniques and new possibilities for promotion of exports. In the changing global scenario, mobility of capital through industry and economy is necessary. Therefore the Government through NIP has welcomed foreign investment which is in the interest of the country’s industrial development.

For the promotion of exports of Indian products in world markets, the Government has encouraged foreign trading companies to assist Indian exports in export activities.

In order to invite foreign investment in high priority industries, requiring large investments and advanced technology, the

---

23 refer annexure l
24 ibid
Government has decided to provide approval for direct foreign investment up to 51 per cent foreign equity in such industries.

It is further declared in NIP that there shall be no bottlenecks of any kind in this process. Such clearance will be available if foreign equity covers the foreign exchange requirement for imported capital goods.

2.6.5.3 FOREIGN TECHNOLOGY AGREEMENT:-

The Government felt a great need for promoting an industrial environment where the acquisition of technological capacity receives priority. In this fast changing world of technology the relationship between the suppliers and users of technology must be a continuous one. Through NIP the Government has provided automatic approval for technology agreements related to high priority industries within specified parameters. So that the desired level of technological dynamism in Indian industry can be achieved. The permission will not be necessary for hiring of foreign technicians and for, foreign testing of indigenously developed technologies.

2.6.5.4 PUBLIC SECTOR POLICY:-

The NIP has stated that the public sector has been central to our philosophy of development. Public sector plays an important role in preventing the concentration of economic power, reducing regional disparities and ensuring that planned development serves the common good.

This 1991, Industrial Policy has adopted a new approach towards public enterprises. The Government has strengthened those public enterprises, which were kept in the reserved areas of operation or were in high priority areas or were generating good or reasonable profits. Such enterprises were provided autonomy. The
areas retained for public sector earlier were made open for private sector. Similarly the public sector was also allowed entry in areas not reserved for it.

There were a large number of chronically sick public enterprises incurring heavy losses and operating in a competitive market but serving little or no public purpose. For their revival or rehabilitation, they were referred to the Board for Industrial and Financial Reconstruction (BIFR) or other similar high level institutions created for the purpose.

In order to raise resources and encourage wider public participation a part of the Government's shareholding in the public sector was offered to mutual funds, financial institutions, general public and workers.

The boards of public sector companies were made more professional and given greater power. The Government also provided technical expertise for the improvement of their performance through Memorandum of Understanding.

**2.6.5.5 BEGINNING OF ECONOMIC REFORMS IN INDIA:**

The main objectives of the MRTP Act were prevention of concentration of economic power to the common detriment, control of monopolies and prohibition of monopolistic and restrictive and unfair trade practices. The MRTP Act came into existence in June 1974 and was amended in 1982 and 1984. With the growing complexity of industrial structure and the need for achieving economies of scale for ensuring higher productivity and competitive advantage in the international market, the interference of the Government through the MRTP Act in investment decisions of large companies had become useless which affects the industrial growth.

The pre-entry scrutiny of investment decisions by so-called MRTP companies will be no longer required. Instead of it emphasis
will be on controlling and regulating monopolistic, restrictive and unfair trade practices rather than making it necessary for the monopoly houses to obtain prior approval of Central Government or expansion of establishment or starting of new undertakings, merger, amalgamation and takeover and appointment of certain directors. The main emphasis of the policy was on controlling unfair or restrictive business practices.

In spite of the various Government policies and procedures aiming at industrial growth and development in the country, the enactment of the IDRA, laid down procedure for obtaining industrial licences and various rules made under the Act, acts as hindrance in the growth of industries in the country. Entire economy was in the clutches of the bureaucrats who were acquainted with unprecedented power and authority over all kinds of industrial entrepreneurs who felt that as if they were at the mercy of these bureaucrats. Apart from IDRA, there were a number of other Acts, which were in fact obstacles resulting in low industrial development of the country. For starting a new industrial undertaking, besides licensing, an entrepreneur has to obtain number of clearance from the various Government departments.

To overcome the prevailing situation, the Government of India announced this NEP in July 1991. With this Indian industries have to face international competition. The various policy measures adopted by NEP were nothing but the introduction of the concept of LPG into Indian economy.

The concept of globalisation has nearly overtaken all the streams of economic policies in recent times in the globe. It has affected directly or indirectly all major economic policy decisions of the Governments, every country. In the recent world history, never such a powerful phenomenon affected developing countries and their financial trade institutions and their policies as well. The entire process of globalisation has presented an entirely new flow of thinking towards foreign investment, trade, technology, employment
and like aspects. In all the spheres of human life globalisation plays a significant role. The perception, that a country’s progress depends not only on the size of its domestic resources, but also to a considerable extent, on what it can obtain form other countries, is much stronger today than ever in the past.

Today the entire world has become a global village. According to M. Suppermaniam\textsuperscript{25}, “Globalsiation is not a single phenomenon. It has become a catch-all concept to describe a range of trends and forces leading to openness, integration and independence of economies.

Therefore the policy of liberalisation and privatisation leads to the Globalisation of the economy.

\textbf{2.7 INTERNATIONAL PERSPECTIVE:-}

Twenty years ago, China was one of the worlds poorest country with 80 percent of its population having a daily income of less than one dollar per day and an adult literacy rate of one-third. Under Maoist China the system was based upon communist ideology-totalitarian, egalitarian and poor. Relatively speaking China in the late 1970s had virtually no legal system and few laws and regulations in comparison with developed countries at that time commencing with its economic reforms in 1978, the country’s average annual growth rate had been approximately 8 to 10 percent per year and in several peak years and the economy grew by 13 percent. When Deng Xiaopong came to power in 1978, he set into motion reforms to privatize agriculture and industry, welcomed foreign investors on a restricted basis and attempted to decentralize economic and political decision making. Today illiteracy has dropped to below 10 percent, consumption has more than doubled and the poverty rate has declined by 60 percent.\textsuperscript{26}

\textsuperscript{25} supra note 9
\textsuperscript{26} www.chinalawdeskbook.com
China is now in the midst of three historic economic transformations. It is simultaneously undergoing economic transition from a planned economy to a market economy, economic development from a largely subsistence peasant economy to an industrialized economy with modern service sector, and economic globalisation from autarky to an important node within the global production network. Roughly speaking, the process of economic transition was unleashed in 1979 when the central the Government turned a blind eye to the de-collectivization of agriculture, and allowed free agricultural markets. The process of economic development began in earnest in 1984 when the Government sanctioned the establishment of non-state industrial enterprises in the rural areas. Finally, the process of economic globalisation was credibly legitimized in 1984 when free trade and liberal foreign investment policies were extended from the four special economic zones established in 1979-80 to 14 other coastal cities.

The rest as they say is history. By 1981, at least 67 % of China’s workforce the proportion employed in the primary sector—had left the planned economy. This great amount of liberalisation in two years really amounted to an economic revolution, a revolution that finally gave land and brought unprecedented prosperity to the peasant.27

In comparison with India, China followed the policy of market economy in 1978 while India opened its economy in 1991 through the NEP. China has adopted policies which are suitable to China. This policy they have adopted by studying the economic policies of western countries and countries in South East Asia. China did not follow the standard policy conditions laid down by the World Bank and IMF for developing their economy blindly. China did not take the decision of privatising its public sector companies hastily. The public sector companies were split according to the kind

---

of products and competition was encouraged amongst them. With the help of limited available resources, it developed the southern and eastern costal regions and provided good infrastructure for competing with international standards. It did not spread its limited resources over a vast area of country. Thus China did not give too much importance to balance regional development. After the successful development of these regions, it switched on to develop other interior areas.

It is important to note as to how China has built huge foreign reserves. According to the observation made by 2nd Labour Commission\textsuperscript{28}, "overseas Chinese have planed a very important role in attracting foreign investments. Initially only exporting units were encouraged to be set in EPZ areas. Even now, about 40\% of Chinese exports are from foreign enterprises located in these areas. Some of the foreign enterprises are not allowed to sell their products inside the country. As a result, there is no competition of their products with those of local companies. Since foreign companies are exporting, these exports result in trade surpluses and the surpluses are invested in U.S. securities. This is how China has built huge foreign reserves.

On the contrary in India the multinational corporations do not significantly contribute for the exports efforts in India. This partially affects our exports. Thus exports remains stagnated.

China followed a well planned sequence of reforms. Instead of initiating reforms with foreign trade and exchange rate liberalisation, China started with agriculture. Agriculture sector in China employed a large majority of workers and had potential for expansion. Therefore in the first seven years of reforms China laid emphasis on agriculture. Collectivisation of agriculture was replaced with privatisation and it resulted in nearly 7\% annual growth. Then after China introduced export orientation for Township and village enterprises which helped to generate demand for the products of

\textsuperscript{28} supra note 23.
rural industries. Then, special economic zones were opened which offered foreign investors excellent infrastructure, special fiscal and financial incentives and flexible labour relations governed by an innovative contract system. While in India policy of trade liberalisation was announced to open most of its industries to foreign investments. As a result of this local industries are facing competition from foreign companies, and they are thus eliminated from the market.

Another important point in China’s success story is that, the administration in China is to some extent decentralised. Local municipal corporations can also take decisions regarding foreign investment up to a certain limit. The laws in China are simple. The entire land belongs to the Government. Therefore allowing rights to use land to a company is a simple and quick affair. Foreign investors appreciated all these factors.

As a result China’s growth has been fuelled by FDI which continues to increase annually. FDI in China has increased at a rate of 18 percent each year for the past sixteen years. FDI topped at $ 2 billion in 1986, $ 52.7 billion in 2002, and over $57 billion in 2003. By the end of 2003, China had approved almost 400,000 Foreign Invested Enterprises (FIEs) with a contractual value of over $750 billion from 180 countries, including FIES from 400 of the world’s 500 largest multinational enterprises.29 While in India an entrepreneur has to spend a lot of energy in following various rules, regulations, obtaining permissions, following procedures and like things. This sometimes takes number of years.

Chinese companies are much bigger in size than Indian companies. China allowed its companies to grow so that they can equitably face global competition. Big or small size of the corporation does not matter in international competition and because of their size; Chinese companies can effectively compete globally. But in India, due to different ideas like monopolies, industrial

29 supra note 23
licensing and the like, Indian companies were never allowed to grow in the licence raj. The largest companies in India are pygmies as compared to other global players. As a result, Indian companies find it difficult to compete under LPG policies.

Indian entrepreneurs are always demanding for flexible labour laws. They plead that because of labour laws' existing in India their growth and prosperity is hampering. But this is not the only reason. It is not merely because of flexible labour mentioned factors, foreign investment is attracted to China and China has been able to achieve remarkable progress.

Globalisation has made capital, technology and methods of production mobile, marking a watershed with the past. The new order is exemplified by China's recent experiences. In fewer than two decades China has become a global manufacturing powerhouse through massive FDI and technology transfer. The impact of this transformation on the U.S. economy is seen in the trade deficit, the loss of manufacturing jobs and downward pressure on wages. It is stated that the items may have an American brand name, but they are mainly made off shore. For example, 70% of Wal-Mart's goods are made in China.

2.8 CONCLUSION:-

The period of 15 years is long enough to assess the impact of reforms on different sectors of the economy and the progress made towards achieving social and economic objectives. The present research study is concerned only with industrial sector in general and industrial employment in particular.

The average rate of growth in Gross National Product (GNP) during the eighties i.e. from 1980-81 to 1989-90 was 5.61 % per annum. Compare with this rate of growth in GNP for the past-reform

30 Balancing World Economies – www.tompaine.com
decade. (Excluding 1991-92 as an year of exceptional crisis) come to 6.331 %. If the year 1991-92, is not excluded the average growth rate for the decade comes to 5.8 %. Thus the post-reform growth has been at least marginally better than the average rate of growth achieved during the pre-reform period. In the XI Five Year Plan period i.e. from the year 2007 to 2012 the rate of growth in GNP is expected to reach 10 % per annum.\textsuperscript{32}

Whether this stability in the GNP growth rate was the result of economic reforms may be a debatable issue, but the fact remains that the wide fluctuations in our national income growth have been cured in the nineties. The fact remains true that unless manufacturing and agricultural sector prosper economic progress is not achieved.

The manufacturing or industrial sector is very important for economic growth because it generates jobs and promotes employment. To meet the fast increasing domestic requirement it promotes exports of manufactured goods. It also contributes to country’s fiscal growth.

In this way a manufacturing sector helps to achieve economic growth of a country. As such it is a key link in the cycle of growth, employment, fiscal sustainability and poverty reduction. Unfortunately the economic reforms have affected the industrial sector very badly during last few years. The main effects on industrial sector are closure, slow down, loss of production, merger and acquisition of industrial establishments by MNCs and Loss of jobs may be due to VR Schemes. All these factors resulted in lowering the demand for consumer goods and so the production was reduced. Another reason for decreased production of consumer goods is the availability of low cost imported goods especially Chinese goods. The implementation of the new economic policy has hit this sector hardest.

\textsuperscript{32}www.planningcommission.nic.in
Another area where important developments have been placed after the announcement of the new economic policy 1991 is the area of foreign investments. Before 1991, India had not been able to attract foreign investments in a big way. One of the objectives of the new economic policy was to bring about a change in this situation and attract a large volume of foreign investments. The necessity of attracting FDI has been cited as a compelling reason for reforms in the labour laws of our country. It is therefore necessary to look at the result of these reforms on the Indian economy and Industry. This is the broad area of study of the present thesis.

Before the economy was liberalised India was following the ‘import substitution industrialisation’ policy and therefore attracting FDI for industrialisation was not the priority. After liberalisation in 1991 the Government tried to attract FDI by initiating various policies. The original policy declaration in 1991, which laid the foundation for foreign investment in India, indicated the Government’s expectations, which were namely technology transfer, marketing expertise, introduction of modern management techniques and export promotion. 33

In the initial years there was some increase in FDI, but it was not encouraging and was far from adequate. In this regard important policies to encourage FDI were announced in 1998-99 and in subsequent years various measure were taken by the Government. By 2000 the Ministry of Industry had included more industries for automatic approval. The ministry also proposed to increase the percentage of FDI limit from 51 to 74 percent for these industries 34 including passenger cars, cement, rubber products, ceramics and power equipment.

The present policies are such that once a foreign firm receives permission it enjoys equal treatment with Indian companies.

34 www.finindia.com
According to Krishna Shekhar Lal Das\textsuperscript{35}, with the beginning of liberalisation in 1991 FDI inflow to India started increasing and by 1995 it reached around a 10 times increase compared with 1990, before liberalisation. By 1997 it reached $3,619 million but decreased for the next two years till 1999 and thereafter it again started getting momentum due to the disinvestments (privatisation) drive by the National Democratic Alliance Government; however by 2002 it had received $3,449 million.

Now the role of FDI as a means to support domestic investment for achieving a higher level of economic development is well recognised. FDI benefits domestic industry as well as the Indian consumer by providing opportunities for technological upgradation, access to global managerial skills and practices, optimal utilisation of human and natural resources, making Indian industry internationally competitive, opening up export markets, providing backward and forward linkages and access to international quality goods and services.

Since the Government of India permitted 51 \% shareholding by foreign companies, many FERA companies increased their shareholdings from 40\% to 51 \% or 74 \% through preferential allotment of shares. These foreign collaborations first increased their shares in Indian companies and then took over the entire management of the company.

Thus, Cummins India took over Kirloskar Cummins Ltd., Sharp (Sapan) took over Kalyani Sharp Ltd., Sulzer Corporation took over Sulzer India Ltd., Swedish Match Co. Ltd., took over Wimco, Whirpool took over Shriram Honda Ltd., and the like.

Some of the foreign Companies acquired Indian companies by buying controlling interests, eg. Coca Cola bought Parle Drinks, Hindustan Lever took over Tata Oil Co. Ltd., and Brooke Bond took over Kisan Products and the like. There is an exhaustive list in this regard.

\textsuperscript{35} supra note\textsuperscript{33}.
During the last decade, a number of Indian companies have gone into the hands of foreign investors. After the Globalisation of the economy, increased competition required extension of the business and for this more funds were required which Indian companies were lacking. Thus, these MNCs acquired Indian companies. The general policy trend of the foreign companies appeared to be eliminating their local Indian partners as soon as they cease to contribute either financially or managerially. Earlier there were restrictions on foreign capital investment to the extent of 40%. So the Indian partners remained on the board of companies with their managerial powers.

But now the Government has given permission to foreign investment even up to 100% capital participation. So these companies no longer needed any help or participation from Indian entrepreneurs; or investment partners. In this way gradually the management of the majority of foreign collaborated companies went into the hands of foreign investors.

Another important effect of the SAP and the NIP was increase in mergers and acquisitions. For the expansion of their business, the Indian entrepreneurs had to resort to mergers and acquisitions. In fact the foreign companies were not interested in mergers, as mergers generally take place between equals. They were interested in acquiring Indian companies and eliminating the Indian management.

Thus post reform period industrial sector witnesses many changes. An increasing number of Indian industries are unable to withstand extreme competitive environment. They have found out an easy and worthwhile way out by selling their assets to MNCs. It is believed to be the fastest and most significant globalisation of the Indian business.

There was a general feeling among the Indian entrepreneurs that it is difficult to survive against the multinationals, which have giant resources which cannot be matched. It appears that their self
confidence was badly shaken. They had to implement various measures including down-sizing through VR Schemes, adoption of modern technology, employments on contract labour basis, outsourcing of the work operations and the like.

On this background of total change in the scenario the gap between Haves and Have not is increasing. Rich are becoming more rich and poor more poor. It is feared about more problems an economy and the general public at large will face in future. Thus it can be concluded stating that the industrial employment in the country depends upon economic and industrial policy as there is a rational relation between the two.

On the contrary recent media article\textsuperscript{36} says that Tata Steel won the auction for Corus and became the world’s fifth biggest steel producer. This has made Tata a global brand. With this acquisition, Tata Steel is now the 268\textsuperscript{th} biggest company in the world, ranking just below Coca Cola. It is further stated that, this is not an era of foreign acquisitions by the Tata group alone. Ranbaxy and Cipla have entered the race to acquire Merck’s generic drug business in Europe and are building War Chests of $5 billion or more. Reliance will be bidding for the plastic division of General Electric, which is up for sale. No longer are Indian companies bidding for just small or medium foreign companies. They are bidding for global giants.

Such news is encouraging for all Indians. Some section of Indian people would get employment in the foreign companies owned by Indian entrepreneurs. Due to this some section of Indian people would get employment in the foreign companies owned by Indian entrepreneurs. But this has happened after fifteen years of the declaration of economic reforms.

In view of Chandra Shekhar Prasad\textsuperscript{37}, after the reforms, the Indian economy has been growing faster than its historical growth.

\textsuperscript{36} Swaminathan S. Anklesarian Aiyar. 'Coca-Colonialism & Tata-colonialism.' Times of India Feb 2, 2007.

\textsuperscript{37} Chandra Shekhar Prasad, 'Economic Review of Indian Economy since Independence'. www.vedamsbooks.com
role Growth in the year ending Mar, 2004 was ground 7.5 % the best performance since the 7.8 % reported in 1996-97. The economy therefore has shown that it is capable of achieving high growth rates in response to the implementation of appropriate economic reform policies. India is now Asia's third exchange reserves. From the traditional agricultural economy, India has emerged as technologically strong, industrially diversified and militarily powerful country. The experience of India is exemplary for other developing countries striving to achieve self reliance and respectable place in the world economy.