CHAPTER 3

LIBERALISATION SINCE 1980S: THEORY AND POLICY CHANGES WITH REFERENCE TO INDUSTRY
Contents

Section-I
POLICY CHANGES AND COURSE OF REFORM IN CHINA
Changes in Theory and Practice
Phases of Liberalisation 1978-till date
The 'Open Door' to Foreign Capital
Policy Reforms
Normative and Policy Implications of Reforms

Section-II
POLICY CHANGES AND COURSE OF REFORM IN INDIA
Policy Changes and Practice Since 1985
Implications of SAP for Indian Economy
New Industrial Policy (NIP), 1991: An Overview
Notes
Since late 1970s, there has marked shift in the policies of both India and China. The political and economic factors\(^1\) during the period contributed to this shift. Hitherto, agriculture and heavy industry were stressed for building infrastructure in both the nations. However, since late 1970s, both India and China started to lay emphasis on the light and medium industries having short gestation period. Due to change of guard in both nations during this period\(^2\), there occurred visible changes in the economic sphere, especially with reference to industry.

There occurred marked changes from state controlled industrialisation to market oriented reforms, from import substitution to export led growth strategy. State withdrawal from market activity is visible. In China, the shift is primarily from state centred socialism to 'market socialism' and in India, it is a departure from Nehru-Mehalanobis model of socialism towards market economy. This becomes the subject of our discussion in the present chapter. We shall try to see the nature and course of liberalisation in both nations with special focus on industry.

In Section-I, we shall outline the policy changes in China, in Section-II we shall discuss the policy changes in India. In both sections, we shall see the nature and course of liberalisation in both nations. This throws light our hypothesis that there occurred visible changes in Industry due to liberalisation.
Section I

POLICY CHANGES AND COURSE OF REFORM IN CHINA:

As we have already discussed in chapter 3, the China has been following a zig zag course right from the initiation of planned economic development. There has been frequent changes in the priorities as to which sector of the economy must be given preference and the mode of achieving development itself. However, following explicit objectives for China's liberalisation programme and continuation of the socialist development, have been shared by the Chinese leadership since 1950s:

1. Institutional formation and transformation including (a) planned economy. (b) Ownership and management of the economy centered in state and co-operatives (or collective) institutions and (c) penetration and transformation of economy and society through expanded political, economic, educational and welfare functions of the party-state.

2. Rapid economic development and the improvement of the livelihood of the people. Industry, particularly the state owned heavy industry, would lead the way but agricultural development was vital to achieve national goals.

3. Elimination of exploitation and the certain inequalities, notably: (a) those relationships associated with the landlord, capitalist and merchant classes and (b) inequalities between men and women, minority and majority (Han) and eventually those between rural and urban population (Selden, 1984:1; Srinivas, 1995a:93).
Though theoretically the leadership was united in achieving its objectives, in practice, sharp conflict developed on the conceptions of sectoral investment priorities (agriculture, light industry and heavy industry), rates of accumulation, the rate of achieving institutional transformation, as to what is the role of the market and the planning in the national economy.

Three important policy decisions implemented during the first five-year plan period and during GLF period, as already discussed in Chapter-3, initiated a course that undermined both in theory and in practice the aforesaid objectives. This course of policies made state on collision course with the rural population. The overt consensus of leadership was destroyed. These policies sowed the seeds for the collapse of collective agriculture that was in progress in early 1980s.

Thus, from late 1970s, the co-existence of both market economy and socialist goals in China can be seen. This, according to Pairault (1984) resulted in following trends:

(1) Relative autonomy was given in the social division of labour to the units of production (state, collective, individual)

(2) The imperfections of the planning system led to social labour diverging from social needs...such situation meant that waste of social labour was acute and the structure (nature) production did not correspond to the structure of social needs (Pairault, 1984:36).
Changes in Theory and Practice:

The reform process initiated by Deng Ping in 1978, announced a complete change of economic direction with the announcement of the programme of 'Four modernisations' (of industry, agriculture, defence and science and technology). The new strategy had two major components: importing modern plant and technology to develop export-oriented industries and the introduction of 'market relations' to replace central and state/provincial control over most of industry and practically all of agriculture.

Deng facilitates the shift in ideological stance has been facilitated by Deng, when he deviated from the Maoist concept of 'politics in command'. He pronounced his concept of 'market socialism with Chinese characteristics', taking queue from the problems that were resultant of the earlier policies such as Cultural Revolution, where in production suffered badly and serious inequalities cropped in due to overemphasis on collectivisation.

Since then, under the concept of 'market socialism' Chinese followed the principle of 'economics in command'. However, Deng stressed that Chinese could not go back to capitalism and that socialism can only save china. The essence of socialism is to liberate and boost the productive forces, to eliminate exploitation and polarisation, and to achieve common prosperity eventually.

Deng says, that: most fundamental task during the present phase of socialism is to develop the productive forces...the criteria for judging the rights and wrongs of economic development and the reform and opening-up policies should depend on whether they are conducive to the strengthening of comprehensive national strength and whether
they are conductive to the improvement of the living standards of the people” (Deng as cited in Weil, 1996:20).

Thus, while Mao stressed on the importance of relations of production, Deng’s ‘market socialism’ emphasised on the development of the productive forces. In this ideology of Deng, ‘development’, ‘national strength’ and ‘improving the living standards of the people’ are the overriding objectives, and though “to eliminate exploitation and polarisation, and to achieve common prosperity eventually”, also are included as part of the ‘definition’ of socialism. It is this growth of productive forces that will help, according to Deng, resolve all other problems.

This is the essence of the Deng’s theory of ‘market socialism’. A one-sided theory of ‘developmentalism’ to which all other objectives are to be sacrificed, and through which all other goals including eliminating exploitative or polarising tendencies, can be resolved, if growth is just fast growth. Thus, the speed of economic expansion, itself becomes crucial according to Deng. In his own words, “don’t hinder the development pace. Wherever conditions permit, you should develop as fast as possible.... Low speed is equal to coming to a standstill or even retrogressing...... Development is of overriding importance” (Ibid.).

Rapid growth therefore not only constitutes the essential definition of socialism for the reformists,, it is the goal which ‘overrides’ pursuit of any other social values, and it is in turn the foundation to ‘save China’ and its sovereignty.
Phases of Liberalisation (1978-till date):

Since 1978, economic reforms commenced in China with an objective to achieve growth and development through enlargement of the role of market. China being a centrally planned economy, the path to transition to a liberalised and globalised market economy was not smooth. There still are several areas where progress of liberalisation is very slow.

However, steps taken by the Chinese towards initiation of liberalisation are commendable. This is because of the fact that they could build several institutional and infrastructural frameworks to attract foreign investments and make exports from China possible. Unlike in India, where inspite of the presence of these frameworks, the leadership could not take advantage to vitalise economy.

Liberalisation in China according to Swamy (1989 & 1996), Srinivas (1995a) and Bandopadhyaya (1997) et al., was implemented in distinct phases. Same is given hereunder:

The first phase (1978-83) of reform extending upto October 1984, focussed on reforming agriculture sector, the financial system as also public finance. In the field of agriculture, in rural areas, decollectivisation was emphasised. Family production and contract responsibility system were introduced.

This involved three major policy decisions: separation of ownership of land from state management by contracting out land to farming families with ownership remaining with the collective, abolition of the peoples’ commune system and upward revision of the purchasing prices of agricultural products. Thus, in agriculture, reforms had stepped up the procurement prices for agricultural products and reduction
in the prices of agricultural inputs including agricultural machinery.

During this period there were steps to develop town and village enterprises. Commercial banks, separate from the central bank were established. In the area of public finance, major reform was that of the granting of financial autonomy to the local governments through the fiscal responsibility system. This introduced greater decentralisation of financial authority to the local governments. Special Economic Zones (SEZs) were set up for industrial development and export oriented units (EOUs) were also established during this period.

In the second phase (1984-87) of liberalisation, two key elements were enterprise reform centered in urban areas and the introduction of a three-tier pricing system-state prices, state guided price & the market price—and a hierarchy of wages according to work.

Before liberalisation, the public enterprises in China had little autonomy over management, wage policy and matters on labour relations like recruitment and exit policy. As a part of the enterprise reform, greater managerial autonomy was granted through introducing the management contract system. In addition, a flexible wage policy with wages linked to working hours and productivity was introduced replacing the old system of fixed wages. The enterprises were also given the autonomy to chalk out their own entry and exit policy for their employees. Regarding prices, as we already noted, multi-tier price system was introduced. Prices for consumer goods and non-staple food articles were liberalised and are to be decided by the market forces.
In the third phase (1988-91), the agenda was the reform of political, economic, scientific, educational and cultural systems. During this period, due to growing inflationary pressures, the economy functioned under considerable control of the state. Prices of essential consumables such as food grains, edible oils etc., were reduced. At the same point of time, stock exchange were opened in Beijing, Shanghai and Shenzen. Exclusive Economic Zones (EEZs) were established in various coastal cities.

In this current phase (1992-Till Date) of liberalisation, China enforced the bankruptcy law as part of its effort to revitalise the state enterprises. During the pre-reform period there were large scale deviations between market prices and input prices. In order to correct such differences/distortions in price mechanism, the prices of production goods were adjusted to market prices.

On the external sector, China had reduced import tariffs, which earlier were very high. It reduced the licensing coverage so as to reform its international trade regime with a view to take active part in World Trade Organisation (WTO) (See Swamy, 1989:37-39 and 1995:7; Srinivas, 1995a:94-95; and Bandyopadhyaya, 1997:21 for details).

In the first phase of liberalisation process, there was marked departure from the Maoist style of economics and politics. In the realm of domestic economics, the moderate reforms have expanded opportunities for private and collective ownership in both agriculture and urban services, offered greater autonomy to enterprise managers, gave economic incentives for peasants and workers and assigned market forces a greater role in the production, circulation and pricing of commodities. Reforms also have decentralised management foreign trade, allowed foreign investment with
certain restrictions, established SEZs to attract foreign export processing enterprises.

According to Harding (1987), reforms also had their impact on the political sphere. He says that "moderate reform has been characterised by an explicit repudiation of the principal ideological tenets of the Maoist period, greater freedom and predictability in the daily lives of ordinary Chinese citizens, greater creative attitude in scientific and academic pursuits, and greater pragmatism, institutionalisation, and consultativeness in national policy making" (Harding, 1987:3).

According to Swamy (1989), it was only in the last three phases that the economy was opened up to foreign investments. "Over 10,000 technological projects were imported and about as many joint contractual and sole foreign venture enterprises were permitted of which 4,300 were commissioned" (Swamy, 1989:37).

By late 1984 and early 1985, radical reforms were introduced in China. These were aimed at creation of markets not only for consumer goods, capital equipment and raw materials, but also for land, capital, labour, technology and even foreign exchange.

Liberalisation in China since early 1988 till date, envision a fundamental change in the character of state ownership in urban industry, so that state enterprises would be leased out to individual entrepreneurs or to group of workers or would be leased out to individual entrepreneurs or to group of workers or would be issued shares of stock and be managed by board of directors who are intern responsible to share holders. Reforms were also aimed to reschedule foreign trade regime and in integration of
Chinese economy with global economy. Steps towards which were already initiated such as trade liberalisation where licensing coverage, tariffs on imports, etc., were reduced in an attempt to join WTO.

Despite the ambitious objectives of China's reformers, and the real changes which occurred in China since liberalisation, much of the basic structure of late Maoist China remains intact. Although the leadership talks about the need for ideological breakthrough, China still contains official ideology (that of socialism) which restricts the scope of political economic reform. Inspite of the fact that Chinese have initiated steps to restore 'market economy' and there is increase in private entreprenuership, State-owned enterprises still dominate the industrial sector. The government exercises powerful influence over prices, investment and allocation. Though life styles in cities and sub-urban areas have changed drastically, China remains to be a single-party state that suppresses fundamental dissent. Similarly, though there is growth in urban centres, much of rural China still remains in poverty, regarding the inequalities in the Chinese system we shall discuss the same later.

The 'Open Door' to Foreign Capital:

In China, the 'open door' symbolises sharp turn towards participation in the world market to speed up economic growth and technological modernisation. Hitherto in China, foreign capital and technology played marginal role. Liberalisation of foreign capital and investment, which grants increased autonomy to individual state enterprises to undertake joint venture deals with foreign capital, interacts with the competitive struggle and encourages the combination of national enterprises with foreign capital.
Starting from 1983 with the automobile industry, entire branches of industry—which hitherto had operated according to the principle of 'economic self-reliance'—are 'combined' and transferred into joint venture operations with foreign capital (Chassudovsky, 1986:121).

Many Chinese economists began to study the law of comparative advantage and to urge participation in the international division of labour. Ziyang (1982) seemed to embrace these ideas when he explained during early 1980s as below:

"By linking our country with the world market, expanding foreign trade, importing advanced technology, utilising foreign capital, and entering into different international economic and technological co-operation, we can use our strong points to make up for our weak points through international exchange on the basis of equality and mutual benefit' (Ziyang, 1982:47).

The technological endowment of individual enterprises will determine their fate in the 'socialist competitive struggle'. The fabric of Chinese industry in this context, is hierarchical, characterised by different levels of technological endowment. The 'backward self-reliant enterprise', the rural factory and the neighbourhood collective are at the bottom of the ladder whereas the 'modern' joint venture assembly line using the most advanced technology, often foreign, is on the top. The issue is not of technological incorporation by China, but the penetration of foreign capital into it. It is significant to note that, foreign trade and investment were carried at the institutional and economic levels.
Like many other socialist countries, China has found it easier to develop links with the world market, rather than to reform the home economy. Somewhat similar feature can be seen in Indian case also. Indeed, the thought must have occurred to some leaders that foreign trade and capital, by making possible the importation of new technology and innovative management methods might let them side step the hard choices of reform (Riskin, 1987:317).

The unregulated entry of foreign capital, and the development of foreign trade ‘along capitalist lines’, subordinates the national economy to the world market, and the capitalist international division of labour in the context of an increasingly dependent process of capital accumulation.

**Policy Reforms:**

Major changes in planning, enterprise management and ownership in the handling of employment, wage and labour issues, and in pricing, banking and trade were introduced in quick succession. Such changes have in fact been under way since 1979. When, intrigued by the existing system of planning and management, the leadership began putting forward a stream of piecemeal reform measures. The nature of reform in China can thus be summed up in following principles:

(1) That the reform is experimental in nature and confined to a few regions. The reforms are in the same regions trying new property forms like co-operatives and the reinforcement of factory managers’ authority, before studying the consequences and using these methods on a wide scale all over the country. (2) that China is moving form imperative national level planning to indicative and
regional level planning whereby bringing decentralisation. (3) that the intervention of state shops trying to ensure price stability. (4) that there is diversification of property. The government has encouraged workers' self-managed co-operatives, mixed individual enterprises. Though they are allowed to function, their total share in industrial production is marginal and still state enterprises dominate the economy. (5) The creation of a labour market at the national level. Under the 'old system' employees are allocated (in equal number of both sexes) by the local labour office, jobs are guaranteed for life and are hereditary. Wages are fixed by the administration and are generally uniform for the entire country and for all sectors of activity. The differential between the lowest and highest wage is extremely small. The bonus for better performance is paid to all workers of a factory almost identically equal to the 4 months wages by the state. This system is called the 'iron bowl' because it guarantees in principle the minimum essential requirement to the worker.

"From 1981 onwards, the urban reforms allowed factory managers to hold back profits of enterprises (paying only taxes in a fixed proportion to the state) to 'reinvest', as they say it. They were allowed to buy raw materials and components, and to sell their output, in the free market. Though, central/state controls still operates over key sectors of industry (such as in transport, power, armaments, etc.) practically all consumer industries, and most of heavy industry operate on this basis. Provincial and local officials were also given broader economic powers than before, in particular to negotiate foreign loans and investments" (Hore, 1991:72).

These reforms led to some of the highest rates of growth ever seen in China until 1985. The ruling classes
response to such a growth was to limit enterprises rights to trade independently and to reassert central state controls over investments. But, the economy was going into recession. Thus, economic policy went quickly into reverse. By 1987 when there was slight improvement, state controls were tightened once more. The pattern of increased control, then relaxation followed by new controls has continued ever since. Till 1989, both growth as well investments had run well above planning, thus proving it impossible for the state to regain its control over economy.

The town and village enterprises (TVEs) which initially were set up to employ peasants who had no land after the agricultural reform, had grown at higher speed (in some cases they undermined the role of heavy industry in China's development). This generated new opportunities, inequalities as also political competition in formulating rural policy and within rural China (Ibid.:73).

On the other hand, the growth of TVEs has been largely at the expense of heavy industry, which had stagnated from the mid-1980s, mainly because of new industries, which are into their markets within both China and abroad. This might be because of the fact that the TVEs grew outside the state plan and could simply ignore the directions to slow down given by the state. Hence, inspite of number of credit squeezes imposed on TVEs from 198, they were able to sustain their growth.

This apart, even newly acquired powers of local managers and officials led to a fundamental redistribution of power inside ruling classes. By 1985, centrally planned investment was half of ruling classes. By 1985, centrally planned investment was half of the total investment planned. The rest came from the private sector (more specifically the
locally controlled capital). They have their own interests at which they work rather than in the interests of the ruling classes as a whole. The contradictions found its sharpest expression in the epidemic of 'economic crimes', illegal business practices that had gripped the whole lower layer of officials since early 1980s. But, the whole problem was that of distinguishing the fair market economic reforms and that of unfair crimes.

If we see the real level of adverse effects on wages and working conditions before recession of 1989, was indeed very modest. The ruling elite know all the dangers involved, and moved cautiously. They talked in the early 1980s of extending the household responsibility system in agriculture to all factory workers. But, they could succeed only in imposing these programmes on new workers alone by the end of the decade.

During 1980s, another significant issue was of diversification of sources of industrial finance and banking. This, however, was part of greater decentralisation in the financial decision making. Thus, power flowed from centralised area to local officials, individual economic enterprises, rural co-operatives, etc., thereby bringing numerous ills. These economic ills had brought in the tussle between the moderates and extremists of the economic reform programmes into the fore. At stake was the policy of reform itself. The first group contended that the reform programme must be guided by state planning focussed on developing key areas of economy and that the speed of growth must be limited witnessing the backwardness of the Chinese economy. The other group speaks of the primacy of competing in World market. They say that China's centralised state control had left it behind the competition. Only further decentralisation and expansion of
the market could give the economy necessary dynamism. Perhaps, the culmination of such a need for decontrol was the opening of stock markets in major cities in China which brought further reforms since 1992 into the Chinese economy.

Normative and Policy Implications of Reforms:

According to Kim (1984) the political economy of post-Mao China has undergone a remarkable reorientation from Mao's value-oriented self-reliance model to Deng's open-door model, through shifts from superstructure to base (or from command politics to command economics), from regional self-reliance to regional specification through the special economic zones (SEZs) and other schemes, from social egalitarianism and normative incentives to the economic division of labour and specialisation and material incentives. Kim (1984) adds that, "from symbolic diplomacy to 'realist' diplomacy, from mass participation in decision making to a more explicit hierarchy of authority and responsibility, from aid giving to aid seeking, from model projecting to model seeking, from fear of dependency to fear of isolationism and backwardness and from autocentric social development to export oriented growth" (Kim, 1984:227).

The notion that China can claim its 'due' share of world market through a dynamic export led growth strategy seems unrealistic in the light of the deepening of structural problems playing the world market: (1) wide protectionist tendencies in the developed world in the wake of formation of trade groupings like NAFTA, EU, etc., (2) wide price fluctuations of commodities, (3) stagflation in industrial countries, which reduces demand for developing countries export and simultaneously increases the price of their imports (Raul Prebisch thesis) and (4) oil price fluctuations.
The open door policy brought not only foreign capital and technology, but also luxury contraband, pornography and other cultural ills that might corrupt China's superstructure. "The extent of smuggling through the SEZs is estimated to run about $500 million worth annually" (it might be even more now). If all this is the outcome, can China succeed at all in its modernisation drive, without legitimising the above evils? Can not we revoke the centre-periphery theory and analyse the export led contradictions in Chinese model? Whatever be the consequences, the Chinese model had started their long march like many of its counterparts in the Third World towards open door policy (liberalisation) which would ultimately restore capitalism.

Section-II

POLICY CHANGES AND COURSE OF REFORM IN INDIA:

As has been presented in chapter-2, the real thrust of economic policy until the late 1970s in India was to provide opportunity to the domestic business elite to consolidate and expand its capital base and exploit the entire potential market within India. Thus, economic policy measures in India, under the guise of import substitution, sought to protect domestic capital from external economic threat. The public sector was given the main responsibility of building an economic infrastructure for the emergence of corporate monopoly business houses within India. But, failure of the strategy thus followed necessitated fundamental changes in economic policy, which incidentally took the form of liberalisation/globalisation drive.

In India, the change from protected management of the economy to a liberalised one was motivated by two factors.
Firstly, domestic market was virtually saturated with the existing levels of quality and technology and secondly, the inherent desire of the industrial elite to gain access to limited foreign markets. Added to this, growth of middle class with steady incomes during 1970s also contributed to change the government’s policy as they were demanding more luxurious goods and comforts, which the Indian business could not meet without collaborations. The changes can also be explained in terms of external factors. As Mehta (1991) writes, "the changes introduced in Soviet Union, the reports of economic disorder in the socialise bloc, the tremendous progress in Far East where S.Korea, Malaysia, Singapore, etc., which followed export led strategy of development, had conditioned the nation’s intelligentsia that socialism was economically unproductive, while liberalisation could lead to quick economic development" (Mehta, 1991:11).

India had to opt for loans, as the nation’s foreign exchange reserves were not sufficient to finance a policy of economic liberalisation. Since the International Monetary Fund (IMF) was operating as a low interest option, India approached it for a massive credit agreement. Therefore, "when India approached the IMF for $ 5 billion aid in 1981, it was welcomed by elite classes" as they felt that, they were now ready for controlled competition and other collaborations. The Government of India envisaged it as boost to the Indian economy. But, neither the IMF nor the West was interested in indigenous economic development of recipient nations. A typical economic growth based on IBRO/IMF would harm the interests of 'certain sections' of Indian monopoly capital and hence "the rejection of third instalment of loan in June,1984".

The rejection of final instalment of IMF loan meant an Indian style of economic liberalisation. The initiative was
to build up market in India for consumer durables for which the middle class has to be tapped and therefore their purchasing power must increase. Wage levels, expansionary effects on market, increased. But, according to an interpretation of Communist Party of India (Marxist): The Indian style of liberalisation "were restricted to public sector and government employees and other workers in organised sectors of the economy. There was a 23 per cent increase in their wages between 1980-81 and 1987-88" (CPI-M, 1991:83).

This was one of the factors that led to the economic boom of eighties. However, general trend was to move away from the traditional industries. There were few new policies aimed at placating the IMF. But, as the implementation of the loan conditionalities began to threaten the new industrial capitalist class, the government refrained from withdrawing the third instalment of the loan and began to rely on commercial loans (see Kurien,1994:95-97 for details). This led to the new economic policy of 1985-91 period.

Policy Changes and Practice Since 1985:

After Mrs.Gandhi's assassination, Rajiv Gandhi took over the reins of power in 1984. He gave a new look to the old policies of Indian economic development. Several policies were initiated for deregulation of controls and creating of an environment suitable for industrialisation. Dasgupta (1990) in his analysis on Indian growth points out, "A review of industrial development revealed that during the Seventh Plan (1985-90) it was the consumer durable sector that recorded the highest growth i.e.- 14 per cent annually" (See Dasgupta, 1990 and Kurien,1994:95).
Industrial licensing system, which was the main weapon in the hands of government to control investment and help check the concentration of resources and production, was liberalised. Further, the Monopoly and Restrictive Trade Practices (MRIP) Act was amended (and later on removed under NEP, 1991). There was an announcement of new three-year export-import policy, through which access to imports was made easier besides reducing procedures for exports that was extended for another three years in 198.

Basic industries such as steel, cement, etc., were opened for limited investments from big houses. It also provided access to foreign firms and Non-Resident Indians (NRIs) to enter Indian industry. By 1987, Rajiv faced opposition from many corners internally and was forced to curtail the pace of liberalisation and hence, to mollify the opposition— the traditional socialistic public welfare programmes such as Nehru Rozagar Yojana, etc., got head start. “Funds amounting to Rs.14,000 crores were spent during seventh Plan on several developmental projects, which had a spin-off effect, i.e.-creating a market for consumer non-durables in rural regions” (Financial Express, 1990).

The industrial policy pursued during early 1980s, provided private producers and investors with a greater role. Tax concessions to high income groups and to corporations was one of the measures to achieve the objective. Substantial increases in salaries at the higher levels of government and government-related sectors (such as higher education) and an unprecedented expansion of employment in the public sector were other measures. All these together built a vast and flourishing domestic market.

As we were discussing earlier, by late 1980s, 'consumer boom' reached its peak and consumer goods and all sorts of
domestic equipment - led the industrial growth of the decade. "Consumer durable goods grew at a phenomenal rate ranging from 8 per cent to 22 per cent per annum during this time... overall industrial growth of 8 per cent per annum was registered" (Kurien, 1994:95).

There was steep rise in budgetary deficits which crossed Rs.10,000 crores mark by 1989 (Times of India, 1990:106). The distinctive feature of the new economic policy was the increasing dependence on foreign technology by the Indian industry for its growth. A deliberate attempt to give boost to consumer industry by the creation of credit facilities for the industry was initiated by Rajiv Gandhi. This increase in internal as well as external borrowings for providing boost to the Indian industry under liberalisation has led India into a vicious circle of excessive debt (See appendix for details on this issue; Srinivas, 1996:275-92) Hence, "while there was a surplus in luxury goods it was contrasted by a shortage of essential goods" (Venkateshwaran, 1989:8).

Because of budgetary deficits and high borrowings, the Indian economy was proceeding towards an inevitable disaster during 1984-89. The monopoly capitalists in India knew well that consumer boom would not last long and hence the search for alternatives started. One was to change the character of liberalisation from high import and less export oriented sector to more infrastructure industries. The second was to seek and capture international markets in high technology capital goods. To achieve the second option the Indian industry's production structure had to adapt to the needs of international markets. Hence, the demand to liberalise Foreign Exchange Regulation Act (FERA) and MRIP Act, etc.
The demand to liberalise FERA came from several quarters, especially from the Indian Merchants’ chambers which had asked for deregulation to encourage foreign investment and floating of Indian rupee to make it convertible. Another demand was to do away with the MRIP Act as this was considered an impediment to the business houses. 

The main thrust of the propaganda was that multinational corporations (MNCs) were playing a positive role by collaborating with Indian companies. Moreover, many bureaucrats felt that India should gradually withdraw its dominant presence in the G-77 and instead join the group of the Newly Industrialised Countries (NICs) for negotiating with G-7 (now G-8) members. It was also held that prosperity in the north is essential for development in the south. However, Manmohan Singh, the then Secretary General of the South Commission, had found it prudent “to caution against total dependence on the north, a stand which is in stark contrast with his (and his successors) present policies and views” (BM, 1989:343-44).

By 1989, India was on the threshold of a debt trap and had begun to borrow foreign exchange on commercial basis, just to service previous debts. Indian economic liberalisation has been based on a very weak financial and technological base besides a restricted domestic market. It was unique in the sense that MNCs and Foreign Direct Investments (FDI) were given no major opportunities to carry out freely, until recently. The developed countries did not stress for such access also, as they knew pretty well that liberalisation with restriction could hardly sustain and eventually India would have to open up its economy.
"An advantage India had in the early eighties was a low debt when compared to Gross Domestic Product (GDP) and more importantly a high credit worthiness. India had a low current account (CA) deficit in 1980-81 when compared to GDP i.e. -1.2% (Mehta, 1991:8). As observed earlier, India had refrained from withdrawing the last instalment of 1981 IMF loan in 1984. This was mainly because the Indian elite’s felt that, citing its credit worthiness, it could borrow from international capital markets, avoiding the IMF conditionalities.

Indian borrowings from capital markets did not rapidly increase during the first years of liberalisation. This was due to the fact that it had just entered the markets and there was not much responsibility of debt repayments (See for details table-3.1).

Besides, India had received two instalments of IMF credit to strengthen its foreign exchange reserves. Until 1988, it was going moderately on commercial borrowings. But, as figures presented in Table 1 show, India was slowly getting into the external debt trap. But, since then it was a spurt in borrowings, which had eventually led to lesser credit ratings in international markets.

Similarly, there is not much change in these aid borrowing and remittances in recent times. Datt (1996) also points out the classic case of debt trap in to which India is already in. He says, "the Economic Survey of the Government of India in its efforts to present a better image of the Indian economy has discontinued the information regarding external aid transactions" (Dutt, 1996:11).
### Table-3.1

External Debt Servicing and Remittances by Foreign Companies Operating in India

<table>
<thead>
<tr>
<th>Period</th>
<th>Total Debt Servicing (made up of Ammortisation and Interest)</th>
<th>Total Remittances (by Foreign Companies)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970-71</td>
<td>450.0</td>
<td>95.3</td>
</tr>
<tr>
<td>1975-76</td>
<td>600.7</td>
<td>106.0</td>
</tr>
<tr>
<td>1980-81</td>
<td>803.9</td>
<td>168.3 (excluding interest)</td>
</tr>
<tr>
<td>1982-83</td>
<td>849.1</td>
<td>398.9</td>
</tr>
<tr>
<td>1982-83</td>
<td>947.5</td>
<td>468.0</td>
</tr>
<tr>
<td>1983-84</td>
<td>1032.5</td>
<td>--</td>
</tr>
<tr>
<td>1984-85</td>
<td>1176.2</td>
<td>--</td>
</tr>
<tr>
<td>1985-86</td>
<td>1366.6</td>
<td>--</td>
</tr>
<tr>
<td>1986-87</td>
<td>1600.4</td>
<td>--</td>
</tr>
</tbody>
</table>

Note: Especially after 1983 itself the outflow by foreign companies was more. But, due to non-availability of data it cannot be shown here.


The ground reality is that during 1994-95 about 96 per cent of the gross receipts in the form of external aid was utilised to repay debt service payments (interest & principal) and net receipts were a mere trickle of the order of four per cent. However, the situation deteriorated in 1995-96 and debt service payments have become 106 per cent of the gross aid received. If the traditional definition of a debt trap has to be kept in view, the country has to seek external assistance to meet debt service obligations. In this case even the aid received would not be sufficient for external payments. Table-3.2 illustrates the same.
Table-3.2
India's External Aid Transactions: Gross and Net
(Rs. Crores)

<table>
<thead>
<tr>
<th>S.No</th>
<th>Items</th>
<th>1994-95</th>
<th>1995-96</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Total</td>
<td>%</td>
</tr>
<tr>
<td>1.</td>
<td>Gross Receipts</td>
<td>10661</td>
<td>100.0</td>
</tr>
<tr>
<td>2.</td>
<td>Debt Service (a+b)</td>
<td>10198</td>
<td>95.7</td>
</tr>
<tr>
<td></td>
<td>(a) Interest</td>
<td>4408</td>
<td>41.4</td>
</tr>
<tr>
<td></td>
<td>(b) Principal</td>
<td>5790</td>
<td>54.3</td>
</tr>
<tr>
<td>3.</td>
<td>Net Resource Transfer</td>
<td>+463</td>
<td>4.3</td>
</tr>
</tbody>
</table>

Note: As we have indicated in table-3.1, the net transfer of resources from India had increased many fold. For details see appendix.

Source: Dutt, 1996:11.

If we compare table-3.1 and table-3.2, we can clearly state that there is heavy transfer of resources from India to foreign countries. It had increased many fold from mere Rs.450 crores in 1970-71 to Rs.803 crores in 1980-81. Since 1986-87 it had plummeted from Rs.1600 crores to the present Rs.11666 crores in 1995-96. This indicates the pathetic position of Indian economy.

During the period of crisis in the last decade, as the commercial lenders would hesitate to provide loans to India evidently because of its low credit ratings, many business groups in order to preserve their interests through liberalisation had asked the government of India to approach for IMF credit. Here the business community is more interested in preserving its own interests rather than those
of the state and try to solve the Balance of Payments (BoP) problem. The fact is that in India the ruling elites are mostly corporate monopolists who, as we have already seen, are inevitably part of World Capitalism and want to go in for more compradore role so as to get their interests preserved. The political parties in India especially the right-wing BJP and the Congress are the main stronghold of them. It is evident from the above analysis that the interests of these elites are looked after by these parties in power. As mentioned elsewhere the whole policy of liberalisation in India is to facilitate the interests of these groups whose businesses until now flourished under state capitalist protection.

Implications of SAP for Indian Economy:

The Kuwait crisis in 1990 blew the lid off the disaster of Indian economy which was precipitated since 1984 itself. Besides being hit in terms of export market in West Asia, India had to encounter it was clear that the crisis had been building up for sometime and that the gulf crisis was only a catalyst (Mehta, 1990:8 and Kurien, 1994: 98-103).

There had been many policy changes in Indian economy since then. The then Finance Minister, Manmohan Singh, while devaluing the Indian currency by 20 per cent, said that it is 'fixing a realistic rate of exchange'. This might have been realistic rate of exchange to satisfy the IMF and prevent the flight of NRI capital from India\(^4\). The next step was to announce the New Trade Policy, Industrial Policy, etc.

The main feature of trade policy was the introduction of exim scripts which was a major instrument of decontrol. Under this an exporter would get an exim which was a blank
permit to import up to 30 per cent of his net exports and could utilise it for either import production inputs or capital goods, or he can sell it in the open market. Besides this there were several concessions to firms in the Export Protection Zones and other Export Oriented Units (i.e.- 100 per cent EOUS).

The exim scripts were later discontinued for a more liberal system under full convertibility of currency. Simultaneously, the new industrial policy also provided, among other things, delicensing of all categories of industries. With certain exceptions like defence, policies like MRTP were relaxed\(^{15}\). FERA was also relaxed up to 51 per cent foreign equity participation in capital intensive industries and in some cases even up to 100 per cent.

Foreign technology agreements where royalties were limited to 5 per cent of domestic sales and 8 per cent of export sales along with lumpsum payments of up to Rs.10 million were now automatically approved. Between 1990-95, “foreign investments approved by this route are estimated to be around $ 374 million” (Dutt, 1996:12). Similarly, there is a spurt in technical and financial collaborations. The Government of India has been following a policy of releasing industry from price and distribution controls during the 1980s.

**New Industrial Policy (NIP), 1991: An Overview**

Over the years, the Indian economy grew at a slower rate that could not bring any visible change in the mass poverty, illiteracy, unemployment, etc. This failure is attributed to the import-substitution strategy and the regulatory regime built to implement it (state capitalist regime)\(^{16}\). The crisis in the late 1980s indicates that a
policy change was long overdue. As part of SAP efforts were made in 1991 to stabilise the economy and deregulate industry, trade and finance so as to increase competition in the country. The statement on industrial policy in July 1991, discusses these issues.

The industrial policy statement starting from 1980, which of course was modified from time to time, focussed attention on the need for promoting competition in domestic market, technological upgradation and modernisation. It also encouraged foreign investment in high technology areas. Number of policy and procedural changes were carried out under the leadership of Rajiv Gandhi. These changes were aimed at increasing productivity, reducing costs and improving the quality of goods produced. The accent was on opening the domestic market to increased competition and readying our industry to stand on its own against international competition.

The government envisaged that through technological collaborations and foreign flows there could be effective change in the production of goods and creating employment potential. There was 23 per cent increase in wages during 1980-81, which had expansionary effects on the market. (See PIRG, 1992:68-81 for details; we shall discuss this issue and its employment in chapter-5).

The industrial policy statement of 1991, among other things, emphasised government's resolve on a policy of continuity with change. In pursuit of the same, following changes were brought in:

1. Industrial licensing policy was abolished for all projects except in some short listed areas.
2. Foreign investments were given permission upto 51 per cent without any hassle. Over and above this needs clearance\textsuperscript{17}.

3. Foreign technology agreements were given automatic approval in high priority industries.

4. Investments in public sector units were reviewed with focus on reorientation. While some of high priority units were to be retained by the government, others and especially those which are loss-making would be referred to the Board for Industrial and Financial Restructuring (BIFR). It is said that a social security mechanism will be created to protect the interests of the workers likely to be affected by such rehabilitation package\textsuperscript{18}.

5. MRTP Act was first amended and was later abolished, to remove the threshold limits of assets in respect of MRTP companies and dominant undertakings. This eliminates the requirement of prior approval of central government for the establishment of new undertakings, expansion of undertakings, merger, amalgamations and take-over\textsuperscript{19} and the appointment of directors under certain circumstances.

As discussed earlier, rate of employment generation declined over the period. One can attribute this to the consolidation of market base in India where private business flourished under state protection. Now that they are capable of tackling market forces and withstand competition form MNCs, the state sector shrunk in size. This also might be to facilitate private sector acquire skilled manpower at a cheaper rate.

Whatsoever the reason might be, state support to unemployed, etc., were to go. Trade unionism is acceptable
at local/plant level but not national federations to be entertained. The NIP, 1991 speaks of greater flexibility of labour (they must be mobile/migrate for long distance) and for their deunionisation. Under the new policy there are provisions for steep reduction of labour force. Instead of channelising the whole of labour, casualisation of labour, where employment is on hire and fire basis, is evident. Wages are paid in piece rate payments instead of earlier policy of lump sum payment.

In July 1991, India officially sent a letter of intent for the IMF standby credit in which the government indicated its willingness to implement drastic reforms to reforms to improve the state of economy. After hectic negotiations a standby credit of pounds 2.3 billion was sanctioned. Later, it had been converted into pounds 7 billion enhanced structural adjustment credit. This signifies the completion of first vicious circle of debt trap that India had stepped into. Despite the harsh conditionalities, ruling sections and elite's in general had accepted the structural adjustment programme.

The present position of India where its foreign borrowings/loans are not sufficient for debt servicing vindicates our position vis-à-vis debt trap into which India had entered. There will be considerable differences through which the present structural adjustment programme works with that of 1980-81. During 1980, the BoP crisis was due to a rise in the import bill due to bulk imports of wheat, oil, etc. India's external debt had not reached crisis situation to impose harsh conditionalities. According to one estimate "it is Rs.350000 crores as of 1995-96" (Prasad, 1996:5). Similarly, Dutt points out the precarious situation into which India had entered. He says external debt in rupee terms rose from Rs.1,30,199 crores in 1990 to Rs.3,11,972
crores in 1995" (Dutt, 1996:11), consequently increasing the
debt services ratio to 106 per cent of net receipts.

But, the present state of economy as well as world is
different. As is well known, the collapse of the socialist
cloc, the start of liberalisation in Russia and
implementation of SAP in many Third World Countries had
given MNCs enough opportunities for investment. Therefore,
India had to offer more concessions to attract foreign
capital.

However, these increases were restricted only to the
workers in organised sectors of the economy. Ironically, a
decade in which the growth rate was the highest, the
increase in employment was the lowest. During 1972-73 to
1977-78 employment had increased at an average annual rate
of 2.82 per cent. It came down to 2.22 per cent during
1977-78 to 1983-84 and further fell to 1.55 per cent during
1983-84 to 87-88. In the private sector, which contributed
much to the industrial growth of the decade, employment
infect declined in absolute terms. The major offshoot of
these policy changes has been that there was an average
reduction in employment by 20.5 per cent in the 1980-90
period.

The present position of India where its foreign
borrowings/loans are not sufficient for debt servicing
vindicates our position vis-à-vis debt trap into which India
had entered. There will be considerable differences through
which the present structural adjustment programme works with
that of 1980-81. During 1980, the BoP crisis was due to a
rise in the import bill due to bulk imports of wheat, oil,
etc. India's external debt had not reached crisis situation
to impose harsh conditionalities. According to one estimate
"it is Rs.350000 crores as of 1995-96" (Prasad, 1996:5).
Similarly, Dutt points out the precarious situation into which India had entered. He says "external debt in rupee terms rose from Rs.1,30,199 crores in 1990 to Rs.3,11,972 crores in 1995" (Dutt, 1996:11), consequently increasing the debt services ratio to 106 per cent of net receipts.

The NEP in India, fashioned as per the provisions of the SAP sponsored by IMF and the World Bank, suggest a marked shift in the position of the state capitalist regime in India, from struggle for independent development to a submissive surrender. It has opened the floodgates of imports of foreign goods, services, technology and capital. It may be concluded that Indian capital could not withstand the combined pressure exerted by the international institutions, viz. - IMF, IBRD, and World Trade Organisation (WTO) and would instead settle for a subservient role vis-à-vis World capital.

Thus, in our analysis in the forgoing sections we presented the policy changes and course of reform in both India and China. In the chapter to come, we shall discuss the impact of these changes on industry in both nations based on an analysis of certain macro-economic parameters; performance of industry during the period under study (1980-95) is analysed.
NOTES

1 During 1970s, due to the onslaught of cultural revolution China could not make headway over planned expansion of industrial base, added to this there was major struggle after the death of Mao. However, Deng only after he took over charge of CPC in 1978 could initiate policies of "Four Modernisations".

Similarly in India, Indira Gandhi faced serious political as well as economic upheavals. The 1973 oil crisis and war with Pakistan in 1971 had its impact on India’s economy. This apart, on the political front, when Mrs. Gandhi faced stiff oppositions to her political supremacy, emergency was declared between 1975-77. Which brought in major social unrest. It is history that the 1978 elections resulted in dethroning of Congress and coalition government of many parties was formed. Subsequently, due to infighting, there occurred mid-term poll in 1980 when Congress won majority and formed the government. It is these two period of 1978 and 1980, for China and India respectively, that we consider the beginning of liberalisation.

2 In 1978 Deng took over reins power in China and between 1978-80 in India there were two governments (one a opposition led coalition government and the other by congress headed by Mrs.Indira Gandhi).

3 There were frequent shifts in brief succession, which led to serious economic imbalances, resulting in the introduction of the policy of readjustment and reform by the Chinese leadership.

4 This explains as to why in early 1980s, people rushed to leave collective agriculture and opted for individual family plots.

5 The Tiananmen square demonstrations in 1986 and The 1989 and subsequent massacres, and recent suppression of demonstrations for political liberalisation and a free Hong Kong state in early 1997 vindicates this point. Sometimes this same totalitarian state might itself responsible for smooth transition under liberalisation, which keeps Chinese state an option to indicate as to where there shall be controls and where it is opening. This is the advantage which is distinctly missing in case of India.
Only 2 per cent of industrial production is shared by industrial enterprises and they are allowed to function in trade sector for modest services. Individual entrepreneurs are allowed to employ up to 12 workers. But, a typical entrepreneur of the Chinese reforms is a petty trader or restaurant owner.

Currency, it is said that some officials under new reforms, people had started mis-using the foreign. But, to be used only to import new had drawn cheques on the pretext of importing new technology television sets - illegally and sell them in entire south-China through market network with base at Hainan.

The state lost control over the economic transactions as "extra budgetary funds" (EBF) from foreign interests, individuals, local bank branches had made joint stock investments which can be named as 'second budget'. According to one analysis EBF rose from 4 per cent in 1953 to 60 per cent in 1980-81 (now this might be much more in the aftermath of stock market openings.

We presume that (official) liberalisation of Indian economy during 1990s was only a culmination of the policy pursued by it since independence. In fact, the crisis in 1956 had initiated aid donors into Indian economy and export licenses were given to them. Later on, during 1966 when there were serious BoP problems. India had devalued its currency. Even bank nationalisation and 'garibi hatao' slogans of the government during early 1970s were only to bring market forces into economy. Hence, we think that the acceptance of IMF loan during 1981 was the first step towards liberalisation.

These include the agrarian and business lobbies which were hitherto getting high subsides. If the IMF SAP was to be implemented, these sections would get effected vis-a-vis removal of subsides, restructuring of land reforms etc.

It is observed that all the points incorporated in the documents were fulfilled during the course of liberalisation without much fanfare. For details see Indian Merchants' Chamber "Blue Print for Economic Reforms", Bombay, July, 1991; see also FICCI and Assocham documents, which also stressed same points in great detail.
Same point can be stressed in the case of China, where in the developed countries thought it prudent to keep away for the time being, when China is opening itself to the global economy. They knew that economic liberalisation also without political liberalisation would not succeed. Hence, there are bound to be pressures on China to have political restructuring. The Tiananmen square incident, Hong Kong students protests, protests in Guangdong, Fujian provinces, protests by farmers in interior China, indicates the forces clamoring political liberalisation.

Standard and Poor's graded India as BBB and Moody's as Baa. For details on this point, see Agarwal, 1992 "Supplement to Indian Economy", p.7.

It is common Knowledge that the rupee was ultimately made convertible probably for the same purpose.

Note that the documents, occasional papers, etc., of FICCI, ASSOCHAM, Indian Merchant's chamber, were the guiding principles behind government's decision.

State capitalism is determined by the class nature of a state and state ownership of means of production. In India, bureaucratic elite leads state capitalism. Here, the ruling classes could articulate their perceptions through the state policies. The Indian State capitalism like some of its counterparts elsewhere in the world, tried to steer India into an 'independent' and respectable position in world affairs. Thus, instead of opening up markets, as western powers advised, tariff and non-tariff barriers were erected to protect Indian market for the development of capitalism with in the country.

Later this itself has been amended so as to make priority clearance.

Details of this social security measure as well as other issues concerning workers shall be discussed in chapter-5.

Mani (1995) presents interesting picture as to the trends in mergers and acquisitions (M&A) for 1988-92. In 1988 there were 15 M&A of which 4 (27%) were horizontal ones. Similarly, in 1989 of 20 M&A 5 (25%) were horizontal; in 1990 of 25 M&A 12 (48%) were horizontal; in 1991 of 33 M&A
17 (52%) were horizontal and in 1992 of the 28 M&A 17 (61%) were horizontal mergers. For details see Mani, 1995:41.

More so, when countries such as China are not leaving any stone unturned in attracting foreign investments.

It is a disturbing fact that the rate of employment creation over the years is falling continuously thus undermining the major concern and objectives of successive five year plans.