CHAPTER ONE

INTRODUCTION

1.1 Business and Industry in Independent India

1.2 The Regime of Controls and Regulations

1.3 The Liberalisation of Economy and Industry

1.4 Liberalisation Measures

1.5 Present Scenario
INTRODUCTION

1.1 BUSINESS AND INDUSTRY IN INDEPENDENT INDIA

Deliberate policy making with State help for economic development was a part of the early economic nationalism. Apart from the actual experience of industrialisation under the impact of ‘protection’ offered by the colonial government, other influences also shaped the thinking of both policy makers and the entrepreneurial class in acknowledging the crucial role of state intervention in economic development. State intervention, in India, was bound to play a fairly important role both because of the enormity of the task of industrialisation and because of the commitment to planning.

The consensus about the rhetoric of planning was based not only on the vision of an activist State. It was based also on an agreement that the State would not seriously interfere in the processes of money-making and power-wielding within the society. The consensus involved not only Indian big business but also foreign capital with which local entrepreneurs were eager to collaborate. In 1949, the Central Government brought out a special statement assuring foreign capital that its existing bastions would not be assaulted by the [then] new government, and that it would be allowed to expand in most fields of economic activity with the exception of few sectors reserved for the Government.
The consensus at the top, even while it lasted, did not always looked like an achieved fact -- it often looked like contentiousness. There were, of course, issues to be settled out, and resources to be contended for. The area of operation was the whole reach of the State and society. The Constitution and the laws defining the limits of State power were all objects of contention as well as attempts at transformation. The State was forced to be minimalist in many areas but in contention bureaucratically interventionist in commercialisable relations and resources. Investment licensing, which was supposed to ration resources for attaining socially desirable ends, became an instrument of patronage in the hands of bureaucrats and politicians. The division of the economy between the private and public domain shifted with shifting perceptions of elite about the constraints and opportunities.

The emphasis placed on state intervention and planning by the Indian industrialist class dates back to as early as 1938, when the National Planning Committee of the Indian National Congress was formed with such eminent spokesmen of Indian business enterprise as Seth Purushotamdas Takuradas on it. The Bombay Plan authored in 1946 by eminent businessmen like JRD Tata and GD Birla, among others, put forward a virtual manifesto for state intervention in the industrial economy of India. After independence in 1947, the Indian Government unequivocally committed itself to state ownership of the means of production.
Indian business viewed state intervention not only from the perspective of the creation of sustained stimulation of a home market but also from the perspective of creating the necessary infrastructure and providing the capital for the expansion of private enterprise.

The nature of industrialisation and the process of raising the necessary capital led to the emergence of the public sector which was envisaged to take the responsibility for developing the main infrastructural facilities and basic industries like mining, metals and machine building. Economic independence, or self-reliance was identified with setting up a heavy industrial sector, something that colonialism had all along thwarted.5

Foreign collaborations were ubiquitous not only in the public sector but also in the private sector of big capital. With the exception of cotton and jute textiles, virtually all other manufacturing concerns of big businesses were carried on with some foreign collaboration or the other. The ability of these firms to produce for the Indian market depended on their collaboration and, in combination with the licensing system, established their monopoly positions in the Indian market. While acquiring their technology through collaborations, they did least possible to absorb the technology, confining such absorption to adoption to locally available raw materials. The result of this dependent
technological position was that in the Indian monopolies completely lacked the technological dynamism that was expected.

Besides a high degree of product concentration, monopoly in India consisted of the predominance of few representative units of capital in most areas of industry. Even as far back as 1965, the Monopolies Inquiry Commission had reported that of a total of 1298 products studied by it, 87.7 per cent were in the hands of oligopolists, with 437 being produced by only one firm each and 229 by two firms each. Moreover, given the extremely diversified and technologically integrated structure of the business group, a few houses tended to monopolise most areas through firms under their control. The Government's stated objectives notwithstanding, the large business houses were able to corner disproportionate share of licences issued by the Government in all areas of industrial activity.

The behaviour of the private corporate sector and the consequent developments with regard to the commodity composition of industrial output also crystallised the role to be played by the public sector. Though the industrial policy resolutions and statements with regard to the "commanding heights" role of the public sector suggested that it was to play a leading role in industrial development, in practice it merely adjusted to an inevitable
residual role in an industrialisation process where market signals and private decision making determined the direction of growth.

Consequently, being the harbinger of 'socialistic pattern' of society, the Government followed the dual economic objectives expanding the public sector in conjunction with the industrial licensing policy in controlling the concentration of private economic power. As a corollary, the Government took various steps in regulating business enterprises. The very essence of enactment of numerous legislative acts was a substantial measure of regulation and control. Thus, while free enterprise was not ruled out as such, its scope was severely restricted. The raison d'etre for doing so was to curb the concentration of wealth, growth of monopolies, and to channelise proper utilisation of the nation's resources; and put an end to other unfair trade practices.

India was perceived as an economy at 'take-off' stage after the adoption of the 'planned' model of economic development and 'socialistic pattern of society'. However, the performance of the economy did not match the euphoric expectations of the society. Probably, the base was built on an false analogy that the State will be a virtually autonomous entity acting on a passive society-- or, rather a society that could be galvanised into appropriate responses as desired by planners and policy makers.
As a result, social scientists and industrialists started attacking the inconsistencies in Governmental policy. There was a mounting attack on the State 'meddling' with economy and on policies that served the interests of a handful few. It was realised that the overall industrial growth of economy was slow due to the growing chasm between India's potential and its real performance. And that slow growth was an inevitable result of the overall industrial regime which, because of comprehensive controls and a systematic blunting of foreign and domestic competition, led to inefficiencies, misallocation of resources and creation of a very high cost industrial structure. Nearly all the elements of the industrial policy regime had a 'growth-choking effect' on business and industry.

This aroused a vociferous demand for 'liberalising' the industrial and economic policies of the Government. The attack on state regulation, on the [inefficient] public sector, on controls and even on certain types of subsidies all pointed to a change in the perception of the business class with respect to the role of the State in the economy.

1.2 THE REGIME OF CONTROLS AND REGULATIONS

Organised thinking concerning the direction of industrial development in India can be traced to the Statement of
Industrial Policy 1945, and more particularly to the adoption of Industrial Policy Resolution of 1948 which demarcated the spheres and limits of public and private sectors. The most significant features of this Resolution was Government's stress on following a policy of 'mixed economy' -- a mid-course between industrial capitalism and planned socialism. The adherence to such a concept was not simply seen as providing the wherewithal for capitalist development, or providing the financial and infrastructural support for business and industry, but as a crucial 'stabilising' factor restoring 'equilibrium' to an inherently unstable system. In fact, the move was regarded as a design to deal with the deep economic crisis that the country suffered at the hands of colonial regime.

The 1945 Statement of Industrial Policy of the then Indian Government is regarded as a precursor of all industrial policy resolutions after independence. It was in this Statement that the first mention of the concept of industrial licensing appeared. Special importance was given to the development of steel, heavy engineering, machine tools and heavy chemical industries. This emphasis has been characteristic of Indian industrial policy thinking ever since. The idea that the Government should actively participate in the setting up of certain important industries was also mooted in this policy statement.
The power of the Central Government for the regulation of industrial development emanates from the Industries (Development & Regulation) Act of 1951, which was enacted in accordance with the principles of Industrial Policy Resolution, 1948 and also with the priorities indicated by each five-year Plan. Prior to this Act, the development of industries was a provincial subject.

Later, significant changes in the economy were witnessed as the country passed through one five-year Plan. The first five-year Plan indicated that the scope and need for development of industries was so great that it was necessary for the public sector to develop those industries 'in which private enterprise is unable or unwilling to invest the resources required'. The idea was that the rest of the field could be left free for private enterprise. These factors led to the inevitable formulation of another industrial policy and thus, the Industrial Policy Resolution of 1956 came into being. Despite significant statements relating to this resolution were reframed, redefined and reoriented in 1978, 1980, 1982, 1985, and 1991, the 1956 Resolution is still the backbone of industrial policy in the country.

Adoption of the Companies Act of 1956, the MRTP (Monopolies and Restrictive Trade Practices) Act of 1969, the Foreign Exchange Regulation Act (FERA), the Imports & Exports (Control) Act, the Capital Issues (Continuance of Controls) Act, etc. gave the Government almost exclusive powers of
regulation and direct administrative control over the functioning of private corporate sector. In fact, many of these Acts were 'essential extensions' of the Defence of India powers acquired by the Central Government during the Second World War. 18

In consonance with the numerous Acts and other schemes of Governmental allocation and controls such as allocation of raw materials and credit, and price controls, the system of industrial licensing was introduced in 1956. It was meant to curb concentration of economic power in industrial houses through barriers of entry and restrictions on capacity growth. However, the original intention was that the licensing provisions would be used on the basis of knowledge concerning different industries according to indepth surveys and reports that would be prepared on a regular basis. 19 Thus, the original intention behind licensing provisions was indeed developmental.

As a result of the combination of thinking originating from the exigencies and requirements of the economy, Indian nationalistic aspirations and the socialistic paradigm of planning, the planners and policy makers used a wide variety of instruments and controls to steer industrial development in a desired direction. However, there was mismatch between the intentions expressed and licensing instruments available for realising them. 20 Although the intention of licensing
mechanism was to use power selectively for the promotion of a few important industries, it was later used to control almost all industries. As an inevitable outcome regulation rather than development became the feature of the system.

Quite ironically, keeping aside the social objectives of growth and development, licences were given irrespective of the Plan targets. Powerful business houses prevented entry of new competitors by acquiring multiple licences in the name of different units which led to concentration of economic power. But cornering these licences did not necessarily lead to the creation of capacity as they did not translate the licences into installed capacity. This defensive strategy permitted retaining of the bases of monopoly power without actually investing in productive capacity. Such a pre-emptive behaviour of the business had a number of adverse implications. For instance, it implied that Government efforts at diverting investment in certain directions -- in keeping with the priorities defined in its plans -- were never realised. As a result, many significant areas were deprived of much needed investments for modernisation.

The immediate impact of this situation was that productive capacity fell short of targets and even actual demand in many cases. In response to this, the Government not only resorted to stricter scrutiny of applications but also the practice of "overlicensing" based on an assessment of the
share of approved applications that have "pre-emption" as their motive. This whole process defeated the purpose for which licensing was adopted, resulting in an implicit breakdown of the licensing system.\textsuperscript{22}

The impact of this investment behaviour of the business group was also visible in the case of price control. Being in a position to pre-empt capacity as well as having the option of investing in a rather wide range of areas, the response of the business group to price control has been that of choking off production in the areas concerned as price control inevitably means lower profits.\textsuperscript{23}

Government intervention notwithstanding, the growth of large businesses corresponded not only to effective market demand but also more specifically to those areas which assured some "target" rate of return. This resulted in spreading the utilisation of investible resources of the group across a number of areas. The tendency to spread risks resulted in a specific investment level, which predetermined the scales of production. Even though in most cases these scales were uneconomic, utilising the protection offered by the Government, business houses chose to establish capacity resulting in the highly uneconomic units operating in a number of areas like plastic intermediates, synthetics and automobiles.\textsuperscript{24} This only aggravated the tendency towards uneconomic scales resulting from the practice of dividing
licences for targeted capacities among a number of applicants with the aim of curbing monopoly.

That this system was unsuited for directing industrial development was realised in the early 1960s. Private entrepreneurs were disenchanted with the system and dubbed it as an 'autarkic' prejudice against private small businesses. The most common criticism has been the cumbersome and time-consuming procedure that involved too many agencies and governmental departments to establish an industrial enterprise. In addition to the numerous approvals, since the enactment of the MRTP Act in 1969, the firms covered under this needed to obtain separate MRTP clearances from the Department of Company Affairs. Probably, like Japanese bureaucrats' belief that business is incapable of making satisfactory decisions by itself and that it is essential for Government to provide guidance on virtually every aspect of operations, India too took steps in similar directions which only lengthened the red-tape.

The failure of licensing policy to operate in accordance with Plan priorities and objectives led to the appointment of a number of committees to review the working of the policy. These included the Swaminathan Committee (Industrial Development Procedures Committee, 1964), the Mahalanobis Committee (Committee on Distribution of Income and Levels of Living, 1964), the Monopolies Inquiry Commission (1965), the Hazari Committee (Industrial Planning and Licensing Policy
Committee, 1967), the Dutt Committee (Industrial Licensing Policy Inquiry Committee, 1969), the Administrative Reforms Commission (1969) and the Dagli Committee (Committee on Controls and Subsidies, 1969). Despite that all these committees were highly critical of the licensing and control mechanisms, the Government did little to bring about any substantive changes in the industrial regulation system. Instead, in the wake of recommendations of Dutt Committee, the Government enacted another regulatory act in 1969 -- the MRTP Act. Needless to emphasise, this is merely an illustration of the kind of thinking that dominated the Indian industrial regulatory environment.

Despite all the evidence to the contrary, it was assumed that the system of controls and regulations, supports the ideals of planned industrial development. One probable reason for the persistence of such ill-founded beliefs was the increasing complexity of the whole regulatory system, particularly the linkage of industrial licensing with foreign exchange allocations. Inter-linkages within the control system was such that it looked practically far-fetched to make any incremental changes.

1.3 THE LIBERALISATION OF ECONOMY AND INDUSTRY

After a quarter of a century of planning for industrialisation and growth in India, there was an increasing perception around the mid-1970s that something
had gone wrong somewhere.\textsuperscript{26} In fact, the stagnation of Indian industrial production between the mid-1960s and 1970s induced some serious new thinking. Following a period of 'official reflection' and academic debate in the second half of the 1970s, industrial policy in the last decade began coming to terms with the basic tenet that economic growth is essential for improving the standard of living of the masses. It was recognised that while guiding the growth of agriculture and industry in desired directions, it is important to ensure that growth itself is not choked in the process.\textsuperscript{27}

Consequently, there emerged a consensus in the early part of last decade that Indian industry was exhibiting a slowing down in industrial growth due to low productivity, high costs, low quality of products and obsolete technology. Moreover, controls and regulations in general were administered on a crude priority basis, and were often based on 'repeat licensing' which reflected post-allocation needs and "undermined progress towards the national objective of a socialistic pattern of society."\textsuperscript{28} These, and other such, factors induced a wave of pessimism and created disturbing and disorienting uncertainty about methods of formulating future strategy.\textsuperscript{29}

There emerged a considerable revision of Indian optimism about controls. As a result, three important committees were
set up in the early 1980s: the Abid Hussain Committee (Committee on Trade Policies, 1984), the Sengupta Committee (Committee to Review Policy for Public Enterprises, 1984) and the Narasimham Committee (Committee to Examine Principles of a Possible Shift from Physical to Financial Control, 1985). These committees clearly recommended an easing up of trade policy, the substitution of physical and quantitative controls by fiscal and other means of macro-economic management, the promotion of greater public sector autonomy in business and operating decisions, and the need for measures for enhancing productivity and modernisation.

1.3.1 Liberalisation Process Initiated between 1985 and 1990

Starting from mid-1980s, there had been a slow conversion to the need to rely less on controls and regulations. There was also a clearer recognition of the potential role of the private sector and foreign capital. In fact, the Government decision makers claim to have realised that Government policy will have to drag the economy forward and remove the bureaucratic obstacles and inertia of a stagnant economy. The Government, too, on its part realised the weaknesses, irrationalities, distortions, and rigidities in the control structure.

After coming to power in 1984, the objective of the Congress Government was translated into action by its Prime Minister Rajiv Gandhi by reinforcing the operation of market
mechanism. It started the process of lubricating the 'recovery' of the late 1970s by not just granting relatively freer access to imports but [also] by adoption of a package of policies that aimed at providing greater flexibility to private sector.\textsuperscript{30} Thus, the rational economic policy changes of far-reaching consequences, commonly described as 'liberalisation' measures, were introduced in early 1985.

The liberalisation process of 1985 attempted at policy changes in almost all sectors of the economy -- industrial, trade, fiscal, and monetary. A number of changes were made in the industrial licensing system including provision for the delicensing of investments by MRTP firms if they invested in backward areas and, in some cases, with stipulated minimum export obligation. Moreover, 32 groups of industries were delicensed without any investment limit. Later, in 1988, all industries, except for a specified negative list of 26 industries, were exempted from licensing subject to a maximum investment limit. However, this exemption from licensing did not apply to MRTP companies.

The Government also specified a minimum economic capacity for initially 73 industries which went up to 106 in subsequent years. The scheme of broadbanding was also introduced in 1985. Several other measures relating to industrial approvals, foreign collaborations, MRTP and FERA companies, etc. were announced primarily in 1985 but extended up to 1989 in small doses. Since most of these
changes came in a piecemeal fashion throughout the 1980s, the system had become increasingly complex to comprehend and administer effectively. Nevertheless, there was a distinct movement away from physical controls and discretionary regulations, and greater reliance on the market mechanism.

Efforts were also made during this period to redress the balance in favour of investments in the infrastructure sector which had been heavily neglected in the decade of the 1970s. Reflecting a recognition that stability in the policy framework is essential for creating an economic environment conducive to growth, the first steps were taken in 1985 in this direction by projecting the long-term fiscal policy (LTFP) and medium-term trade policy, although the concept of stability suffered setbacks in the late 1980s.

It was expected that the liberalisation process of 1985 would be taken to a logical conclusion. But many political factors hindered its natural and conclusive development. One noticeable aspect was the sharp reaction made by Congress leaders at the All India Congress Committee meeting at Bombay in 1985 itself. This made the Government cautious and led to the adherence to the Nehruvian legacy -- the 1956 Industrial Policy Resolution and 'socialistic pattern' on the one side, and increasing the scope for monopoly and foreign capital on the other. It is worth mentioning that the Government had to adopt the "two-steps-forward, one-
step-backward" approach of implementing the liberalisation measures. Moreover, the implementation of liberalisation in piecemeal fashion kept the discretionary powers of the Government largely intact. There had been other omissions and commissions on the policy front which slowed down the momentum of change.

1.3.2 Liberalisation Process Initiated since July 1991

The changes initiated in the policy packages towards liberalisation and opening up of the economy in 1985 and onwards were not systematic and did not integrate with an overall policy framework. The ultimate results of the various liberalisation measures varied from very effective to mixed response to being ineffective. Despite a significant improvement in the growth rate of the country -- an average growth rate of 5.5 per cent and above -- in the post-1985 liberalisation period, there developed a consensus among policy makers in the late 1980s that the sustenance of this level of growth had become very tenuous as they had to be supported by a large chunk of foreign savings financed by measures which were proving to be unviable.

Moreover, in the later half of the eighties, the policy makers -- under the compulsion of changing circumstances -- indiscriminately opted for loans on harder term basis, like commercial borrowings. Another folly was to use the commercial borrowings for financing Government's large

18
unproductive expenditure in deference to their repayment obligations. Besides, the Government financed imports through the foreign exchange reserves. The serious fiscal crisis that eventually resulted was largely due to the cumulative impact of Government's profligacy over the years.

The situation aggravated by an exogenous factor -- the Gulf War in August 1990 -- which generated pressure on the balance of payments situation. And partly by a wrong decision taken by the Government to import and store oil in excess of immediate demand at the high prevailing international price. For such other reasons, the process of liberalisation was interrupted. The challenge of economic management in the nineties was, therefore, to put the economy back on a sustainable high growth path.

The Narasimha Rao Government, which assumed office in June 1991, realised the need to introduce substantial reforms in order to bring the economy back from the brink. On July 1, 1991, the new Government devalued the rupee against the major currencies, marking the commencement of a series of reforms that continues to this day. If the changes brought about over the past 21 months are taken together, including those initiated in the recent 1993-94 Union Budget, the process of liberalisation is undoubtedly a bold restructuring of policies which was never attempted before. The policy changes have been extended to a wider horizon that includes industrial policy, public sector, taxation,
trade and exchange rate policy, foreign investment, banking sector and capital market, etc.

As per the Statement on Industrial Policy of July 21, 1991, the Government visualised that the major objectives of the new industrial policy package would be to build on the gains already made, correct the distortions or weaknesses that may have crept in, maintain a sustained growth in productivity and gainful employment, and attain international competitiveness. In pursuit of the above objectives, Government decided to take a series of initiatives in respect of policies relating to the following areas: (1) Industrial Licensing (2) Foreign Investment (3) Foreign Technology Agreements (4) Public Sector Policy (5) MRTP Act.

Liberalisation in industrial, trade and financial sectors have provided for the first time, an opportunity for the private sector to take unhindered commercial decisions. With the role of bureaucratic and other controls being pruned, market forces have been given primacy to enable automatic and decentralised decision making. The objectives of modernising India's industrial base and making it competitive in terms of cost and quality has occupied a centre stage in the economic reforms that have been undertaken.
The role of public sector has been reduced in the current phase of liberalisation. A concomitant increase in the role of private sector which can invest in almost any area with minimal procedural and licensing formalities has now been envisaged. Inflow of foreign investment for resource augmentation, technology build up and modern managerial input has been made another priority area. By providing automatic approval for foreign equity participation and collaborations, cutting down of time-consuming formalities and by making amendments in FERA, the Government have taken steps of far-reaching implications.

The rationale for planning, too, has undergone a change. Planning, as envisaged in the Eighth Five Year Plan (1992-97), has become indicative and Government's major resources would be utilised in providing social infrastructure and basic human needs. It is also for the first time that a long-term Export-Import Policy has been announced by the Government which is co-terminus with the Eighth Five Year Plan. In the 1993-94 Union Budget the Indian rupee was made 100 per cent convertible. In short, the changes brought about by the present Government have touched almost every aspect of economic activity.

With the help of the present process of liberalisation, the Government aims at achieving:

- a liberalised trade regime characterised by tariff rates comparable to other industrialising developing
countries and the absence of discretionary import licensing;
- an efficient and dynamic industrial sector subject only to regulations relating to environmental security, strategic concerns, industrial safety and unfair trading and monopolistic practices;
- a financial system operating in a competitive market environment and regulated by sound prudential norms and standards;
- an autonomous, competitive and streamlined public enterprise sector geared to the provision of essential infrastructure and goods; and
- an exchange rate system which is free of allocative restrictions for trade.

These objectives are only indicative in nature. There are many other supporting changes, and more are expected to be implemented, along the above broad directions.

The broad contents of the structured reform process are not new. They are an elaboration and intensification of the liberalisation process that began to be introduced in the eighties. These changes are aimed at increasing productive efficiency of the economy by creating a more open and competitive environment for both the public and the private sector.
1.4 LIBERALISATION MEASURES

The Government, in 1985, accepted the weaknesses, irrationalities, and rigidities of the regulatory system. As a result, it took various steps between 1985 and 1989 to ease the structure of controls. It also probably realised that the bureaucrat, the politician and --to some extent-- sections of the industry, which directly benefitted from the protective consequences of regulation, constituted a combined lobby in favour of maintaining the system. In order to reduce the maleffects of controls, the Government announced a number of industrial policy changes starting from January, 1985.

1.4.1 Major Liberalisation Measures between 1985 and 1990

Although several liberalisation measures were announced during the period, following formed the highlights of the liberalisation package.

Delicensing

(1) To stimulate industrial growth and simplify industrial procedures, 25 broad categories of industries were delicensed in March 1985. Three months later, 82 bulk drugs and their formulations were delicensed.

(2) In September 1986, delicensing was also extended to certain chemical industries.
(3) In 1988, all industries -- except for a specified negative list of 26 industries -- were delicensed. This exemption from licensing was, however, subject to a maximum of Rs 15 crore if the industry is located in a non-backward area, and Rs 50 crore if it is located in a centrally declared backward area.

Minimum Economic Scales (MES) of Operations


(2) In 1987, existing units were allowed to expand their capacities automatically up to the specified limits.

(3) These policies were continued in 1988. The number of specified industries went up to 84.

(4) The number of industries for which minimum economic capacity was prescribed went up to 106 in 1990.

Capacity Re-endorsement

(1) In 1986, the scheme of re-endorsement of capacity was announced for undertakings which had achieved 80 per cent capacity utilisation. This scheme was also extended to MRTP companies.

(2) It was announced in 1986 that when old plant was being replaced, additional capacity up to 90 per cent of the original licensed capacity could be endorsed.
(3) Government announced in 1988 that industrial licences will be automatically endorsed at the maximum production achieved by any industrial unit between April 1, 1988 and March 31, 1990.

Broad Banding

(1) The scheme of broad banding was announced in 1985 for 22 industries.

(2) In stages, this facility was extended to 28 groups of industries in 1986.

(3) The list of broad banded industries was further expanded covering 33 groups of industries in 1987.

(4) In 1988, the scheme was extended to seven more groups of industries taking the total to 40.

(5) The number of industries covered by the scheme went up to 46 in 1990.

Industrial Approvals & Foreign Collaborations

(1) For the delicensed industries, only registration with SIA (Secretariat of Industrial Approvals) was required.

(2) To facilitate expeditious decisions, powers were delegated to the Administrative Ministries in a number of areas in 1986.

(3) In 1986, undertakings which had obtained export orders were permitted to manufacture concerned item without
obtaining industrial licence, provided the entire production was exported.

(4) The validity of registrations granted by technical authorities like DGTD (Director General, Technical Development) was increased from 2 to 3 years in 1987. Also, validity of Letters of Intent was increased to 3 years.

(5) Overseas companies were allowed, in 1987, to submit applications for foreign collaborations and other approvals in their own names.

Facilities to MRTP and FERA Companies

(1) The minimum assets limit of MRTP companies was revised from Rs 20 crore to Rs 100 crore in 1985.

(2) Certain industries were exempted from the provisions of Sections 21 and 22 of the MRTP Act in 1985.

(3) MRTP and FERA companies were exempted from licensing provisions in 1986 in high priority items, except pharmaceuticals, subject to Government's locational policy.

(4) Broad banding facility was extended to MRTP and FERA companies in certain items in 1988.

(5) The scheme of delicensing was extended to MRTP and FERA companies in 1988 subject to the Government's locational policy.
1.4.2 **Major Liberalisation Measures since July 1991**

The liberalisation process initiated by the present Government are more broad-based and bold than the one initiated in mid-1980s. Following are the major liberalisation measures announced since July, 1991.

**Delicensing**

(1) All industries delicensed in 1991 except for 18 industries. These industries requiring a licence relate to defence production, strategic concerns, environmental or ecologically sensitive areas.

(2) Three more industries -- passenger cars, white goods, and raw hides and skins, leather and patent leather -- were delicensed in April 1993. Now, only 15 industries require licence.

**Minimum Economic Scales (MES) of Operations**

(1) The number of industries for which minimum economic capacity is prescribed increased to 120 in 1991.

**Capacity Re-endorsement**

(1) All existing units are exempted from licensing for substantial expansion.

**Broad Banding**

(1) The facility has been expanded to existing and new industrial units.
Industrial Approvals & Foreign Collaborations

(1) All existing registration schemes (delicensed registration, exempted industries registration, DGTD registration) have been abolished.

(2) Entrepreneurs will henceforth only be required to file an information memorandum on new projects and substantial expansions.

(3) The system of Phased Manufacturing Programme (PMP) will not be applicable to new projects.

(4) Foreign equity participation raised to 51 per cent from 40 per cent in 34 industries.

(5) A foreign equity proposal now need not necessarily accompany technology transfers.

(6) Automatic approval will be given for foreign technology agreements in high priority industries numbering 34.

(7) No permission is required for hiring foreign technicians.

(8) Capital goods committee in the SIA has been abolished.

(9) Automatic clearance is granted for import of capital goods if foreign exchange requirement is ensured through foreign equity.
Facilities to MRTP and FERA Companies

(1) The limits on the assets of MRTP companies and dominant companies have been removed.

(2) Change in FERA carried out so as to facilitate foreign equity participation upto 51 per cent.

(3) Companies with foreign equity upto 100 per cent will be encouraged to act as trading houses primarily engaged in export activities.

Thus, the New Industrial Policy is one of the most far-reaching policy initiatives undertaken by the Government which provides an augmented role for the private sector while at the same time gives autonomy to the enterprise to decide on the size, location and sector of investment.

1.5 PRESENT SCENARIO

The process of economic reforms for liberalisation of the economy is now a global phenomenon. The role of market forces for efficient resource allocation, higher economic growth, and greater productivity and efficiency is now well recognised. India, which has recently embarked on the process of liberalisation, has taken substantial measures to reduce the regime of controls and regulations. This process has also added an aspect of attitudinal change. Industry is gradually becoming aware of its enhanced responsibility towards the consumer which the market mechanism demands.
However, for the private sector to enhance productive capacity, it is essential to remove two major bottlenecks -- infrastructure and Government clearance at the state level. Moreover, delay in clearance of new project from various authorities at state level will cause cost escalation, if not the disbandment of projects.

Undoubtedly, liberalisation is not a single stroke operation. It is the sum total of a variety of measures intended to bring about a free play of market forces. That is because market is almost invariably the best place to decide what to produce or how to produce. Although the Government has acted almost decidedly towards liberalisation yet there is considerable scope for more consolidation in this regard. According to a survey conducted by the Center for International Private Enterprise (CIPE) -- a subsidiary institution of the Washington-based US Chamber of Commerce -- India ranks fifth in a group of seven countries which embarked on liberalisation process in the 1980s. Exhibit 1.1 shows the rating of liberalising countries which is based on the market-orientation of each country.

Compared to Korea, Indonesia or even China, India is till considered to be far more regulatory and its bureaucracy more negative. Moreover, despite the liberalised exchange control mechanism, India has the most restrictive exchange control system except for China, when compared with the
newly-industrialising countries. However, when compared on the basis of two factors -- policy framework and regulatory environment, India is rated well. Exhibit 1.2 shows the comparative policy framework and regulatory environment of India and seven other countries.

Exhibit 1.1: Market-orientation of Selected Countries (1991)

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>LIBERALISATION INDEX (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malaysia</td>
<td>80</td>
</tr>
<tr>
<td>Indonesia</td>
<td>75</td>
</tr>
<tr>
<td>Thailand</td>
<td>66</td>
</tr>
<tr>
<td>Poland</td>
<td>65</td>
</tr>
<tr>
<td>India</td>
<td>57</td>
</tr>
<tr>
<td>Hungary</td>
<td>53</td>
</tr>
<tr>
<td>Czechoslovakia</td>
<td>50</td>
</tr>
</tbody>
</table>


The success of India's liberalisation process depends crucially on exports growth. And the prerequisite to raising exports is to become more competitive. In the global market, Indian products are considered competitively priced, but rank low on critical factors like quality, creativity and technology. It is for these reasons, the perception of India in the post-liberalisation phase is not very encouraging. The World Competitiveness Report ranked 10 countries in 1991 -- India was tenth. After the announcement of the current phase of liberalisation, the World
Competitiveness Report 1992 ranked 15 countries with India securing 11th rank. Such drawbacks in the economy and business will have to be eased out if liberalisation is supposed to take the country towards global integration.

Exhibit 1.2: Regulatory Environment & Policy Framework: A comparison

<table>
<thead>
<tr>
<th>General Approval Requirements</th>
<th>China</th>
<th>India</th>
<th>Indonesia</th>
<th>Korea</th>
<th>Malaysia</th>
<th>Singapore</th>
<th>Taiwan</th>
<th>Thailand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign Investment</td>
<td>Yes,</td>
<td>Yes,</td>
<td>Yes,</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No,</td>
<td>except for restricted industries</td>
</tr>
<tr>
<td></td>
<td>automatic under certain conditions</td>
<td>automatic in few cases</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrial Licensing</td>
<td>Yes,</td>
<td>No,</td>
<td>Yes,</td>
<td>Yes</td>
<td>Yes,</td>
<td>Yes,</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>except for few restricted industries</td>
<td></td>
<td>except for few industries</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repatriation of Profits</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No,</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>No, if in accordance with app. remittance schedule</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Imports</td>
<td>No,</td>
<td>No,</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>except for few restricted items</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign Loans</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes,</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Domestic Loans</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No,</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>except above certain levels</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technical Collaboration</td>
<td>Yes,</td>
<td>Yes,</td>
<td>No</td>
<td>No</td>
<td>Notification required</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>automatic within laid down parameters</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expatriate Employment</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Incentives</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Repatriation of Capital</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>Notification required</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The main consequence of the process of liberalisation is that the four-decade old obstacles which prevented firms from entering new business or increasing their size, and competing among themselves in the local market will be removed. As a result, business and industry will probably face the twin challenges of growth and competition. Indian industry will have no choice but to meet the progressively fierce local and international competition. This would require a change in perception and thinking of Indian business and industry. The emerging environment of the nineties would require strategic responses and sound business theory which is compatible with the present and future realities rather than with past rigidities.

* * * * *
REFERENCES


13. ibid.


17. ibid.

18. ibid.

19. First Five Year Plan, Government of India, Delhi, 1952, P.432.


22. C.P. Chandrasekhar, *op. cit.*

23. C.P. Chandrasekhar, *op. cit.*


27. ibid., pp.54-55.


32. ibid.


39. ibid.