Impact of the 1991 industrial reforms in india

Policy Brief on the TOPIC- 1991 INDUSTRIAL REFORMS IN INDIA

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1991 Industrial Reforms in India

INTRODUCTION

The government felt a need for the 1991 Industrial Reforms in order to build a modern, prosperous, democratic and a forward looking Indian. Their objective was to attain social and economic equality and put an end to poverty prevailing in the country. They wanted India to be integrated with the whole world wherein it would progress along with the other nations and not in isolation. There was a need to build foreign exchange reserves through increased FDI so that the country is capable to pay for its imports from its own foreign exchange earnings.

Until 1991, India was protecting its infant industries from outside competition because these industries were not capable to face foreign competition but in the 1991 reforms, the government decided to liberalize the industrial sector so as to increase the competitiveness of the indigenous industries. They also encouraged entrepreneurship and brought developments in technology through research and development. It was after the 1991 industrial reforms that big firms life Infosys and Wipro were started. Increased foreign competition improved the efficiency and the technological base of Industrial enterprises.

Although the big businesses were made to face stiff competition from foreign MNCs, the government provided additional support to the small scale industries as well as cottage industries so that they can survive amidst the environment of economic efficiency and increased technological up-gradation. Except, strategic and military based enterprises, all other manufacturing sectors were open to competition and monopolies in manufacturing field was abolished.

Labours’ needs and aspirations were given due importance, they were made equal partners in the progress of the nation. Workers’ participation in management was promoted. Government took steps to enhance the welfare of the workers and equip them to cope with the new and advanced technology. Workers cooperatives were given emphasis to participate in programs designed to improve sick companies.

The major aim of the 1991 Industrial policy was to improvise the gains which the country was already making, correct the distortions that might have been generated and maintain a sustained growth in productivity.

Greater emphasis was also given to environmental issues. In order to protect the environment and curb the emission of pollutants in the atmosphere, the government encouraged cleaner and efficient methods of manufacturing.

Issue of sustainable development was also addressed so that judicious use of resources takes place.

In order to achieve its objectives the government took certain initiatives in respect of the policies formulated. These initiatives are as follows:

1. <u>INDUSTRIAL LICENSING POLICY</u>

This initiative is governed by the Industries (Development & Regulation) Act, 1951. Three categories of industries were identified:

1. Those reserved for development in public sector
2. Those permitted for development through private enterprises either with or without state intervention.
3. Those in which investment initiative would emanate from private entrepreneurs.

To realise the full potential of the industrial capability of the country, it is mandatory that the licensing policy is revised and modified from time to time. It is very important to lay foundations for a conducive environment to foster entrepreneurship in India as it is the need of the hour. The government should provide ample encouragement to the Indian entrepreneurs to exploit the available opportunities to meet the growing domestic and global demand as well as be prepared to face challenges. For this, the government must let the entrepreneurs make the investment decisions according to their own financial judgement. At the same time the entrepreneurs will have to be flexible and adaptive enough to adjust to the fast changing trends in technology and work culture. The government besides providing help and guidance will also have to play the role of making essential procedures transparent and eliminate delays wherever possible. There has to be a strong decision taken by the government in order to remove restraints on capacity creation and scale expansion while taking into consideration that overlapping nation interests are not compromised. Thus, post reforms, industrial licensing has been abolished for almost all enterprises except a few where security is a concern, non-adherence to environmental norms manufacture of hazardous products of consumption etc.

Abolition of licensing will particularly benefit the medium and small scale enterprises that were unnecessarily subject to stringent licensing. As a result, the Indian industrial system will become more robust and favourable for international trade.

2. FOREIGN TECHNOLOGY AGREEMENT:

In the present scenario where technology is the priority and development rotates around productivity and efficiency achieved from this technological advancement, it requires a continuous relationship between the suppliers and users of technology. But achieving this healthy relationship becomes difficult if the process of approval includes government intervention at every step involving delays and uncertainty. The entrepreneurial start is an instance that these entrepreneurs do not need any bureaucratic approvals of their technology relationships with foreign suppliers. If Indian economy were to operate in the global market within such regulatory framework then our domestic producers would have failed to compete globally.

Thus this agreement was of the view to pump in the desired and required level of technological dynamism in the Indian economy (industrial sector) and aims at providing automatic approval of the Government for the technology agreement which would be skewed towards industries with high priorities under specific parameters. Also the Indian firms were given the power to negotiate the terms and conditions of the technology transfer in their agreement with the foreign nations considering their own commercial judgment and requirements.

3. PUBLIC SECTOR POLICY:

Pre 1991 industrial policy the public sector witnessed a number of bottlenecks namely insufficient growth productivity, bad management, there was no technological up gradation and not much attention was given to R&D department. Also this sector saw low returns on the capital invested. Under this policy the Government aimed at improving the enterprises which were being operated in reserved areas or may be located in high priority areas or were making profits. Such firms were given a better hold on the management authority through the specific memoranda of understanding (MOU) designed for the same and a part of Government holding (in the form of equity share capital) in these enterprises were invested in the form of mutual funds, general public, financial institutions, workers and there came in private enterprises too, as a result there was an extended discipline in the performance of the public sector.

The priority areas were the infrastructure goods and services, the exploration and exploitation of oil and mineral resources, technology advancement in areas which promises long term development.

4. MONOPOLISTIC TRADE PRACTICES AND CONCENTRATION OF ECONOMIC POWER, MRTP ACT, 1991

The MRTP act is an important Act, as far the trade policies are concerned. The Act came into being in the year 1969. It ensures that any Economic process should not act in such a way, so that its economic power does not concentrate to a single detriment. It was a very important piece for the economic legislation, which spoke about anti- monopolist nature in trade. Though the Act was designed long time back, it got amended in the year 1984. Later on in the year 1991, it got implemented for the second time.

To take an intense look through this Act, it is seen that the Act has been divided into four broad components. These are as follows:

- Monopolistic practices
- Restrictive trade practices
- Unfair trade practices
- Concentration of Economic Power

The above first and the fourth component were the primary focus of 1991 amendment. These two components were never given so much importance earlier.

- Monopolistic Practices- This was an important issue in the area of trade. Monopolistic practice implies unnecessarily and unreasonably controlling the price of the commodity, paralysing technological development, increasing the cost of production and decreasing the completion in the world market.

- Concentration of Economic Power- This clearly implied the dominancy of a particular economic activity in the world scenario that could be detrimental for the global competitors.

To curb such problems the MRT Act was launched. The basic doctrines can be summarised in the following manner:

- A Restrictive Trade Practise (RTP)- This gives protection to competition, checks the price discrimination, restricts areas for trade and enforces full line forcing.
- Unfair Trade Practices (UTP)- This is the protection towards destruction and duplicity of goods, guarantee of product safety and bargain sale.
- Monopolistic Trade Practice (MTP)- This includes the protection against monopolist and unreasonable price change.

The MRTP Act is actually governed and taken care by MRTP Commission.

EXPERIENCE:

Amending the MRTP Act in 1991, there has been some practical problems. The flaws lie within the framework of the Act itself. There are various bindings by the Supreme Court, which does not allow the exact implementation. Few problems with the perusal of MRTP Act are the following-

- Dominance has been abused
- Refusal to deal with
- Predatory Pricing

These contradict with the securing nature of MRTP and bring in the thought of anti- competitiveness. To justify these problems in MRTP, the Competition Act was amended in the year 2002.

COMPETITION ACT

The main components of the new Competition Act are as follows-

- Agreements among different enterprises
- Abuse of dominance
- Advocating Competition.

These are the prime inputs of Competition Act, which is nothing but a heal for the MRTP Act. It is the old wine in a new bottle. The basic structure is the same, only few changes are made to cure the faults of MRTP. More vivid reasons are cited by Dr. S. Chakravarthy in his paper " MRTP ACT METAMORPHOSES INTO COMPETITION ACT." It is nothing but the continuity of the MRTP Act in through the previous decades.

EFFECTS:

The positive effect of the economic policy of 1991 was that licensing was abolished majorly for all the industries except for a few of them like coal, petroleum, sugar, chemicals etc. Thus as a result the corporate sector's demand which remained ignorant for long was fulfilled. Various bottlenecks were also solved by the implementation of this new policy. Till a great extent this helped in bringing the private sector's growth to a halt, encouraging the public enterprises.

But this policy was claimed to have hurt the sentiments of the fundamentals of the Indian economy like the sovereignty of the nation. Also it was difficult to monitor the payments dividends by RBI. Another drawback seen was the lack of attention given to the surplus generating public sectors which constitute the major portion of the investment.

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