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Study of Impact of Economic Reforms on the Indian Businesses

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Abstract :
India had witnessed the economic reforms in 1990s. The reforms were predictable to result in a high growth rate coupled with a structural change towards high technology industries. This paper analyses impact of this reforms on Indian businesses.
Keywords : economic reforms, business development, economic growth

Introduction :

The Indian economic reforms of the early 1990s have enthused much research and a host of academic papers. It is common to attribute India's recently accelerated growth to the reforms. An aspect that has continued relatively unclear is which policy changes within the reforms have led to which consequences for employment, incomes and poverty. There is also debate about which further policy changes are essential to sustain the increased growth and to strengthen the diffusion of progress to the lower-income segments of the population. Most studies have analysed the reform impact on macro masses, which leaves it unclear how different policies have worked. In order to examine this aspect it is valuable to investigate at the firm level how different industries were affected by specific policy changes.

India has adopted a policy of planned economic development, after Independence. To achieve this it has tried to follow a policy of protected economy and import substitution. India pursued the path of a socialist republic. Before 1991, the Indian economy had been in a crisis. According to J.S. Sodhi1 India has been witnessing a high rate of inflation, decelerated industrial production, fiscal indiscipline, very high ratio of (internal and external) borrowing to Gross National Product (GNP) and a dismally low level of foreign exchange reserves. In early 1991, the foreign exchange reserves had become so low that it was barely sufficient to meet three weeks imports.

The new economic policy for short referred to as NEP has wide impact on the economic, industrial and industrial growth and industrial relations in the country. NEP implies a policy of liberalisation with a greater role for the private sector. It encompasses deregulation, withdrawal of subsidies or state support to public enterprises, abolition of obstacles in the way to investment by withdrawing provisions of Monopolies and Restrictive Trade Practices Act (MRTP) and also made the flow of foreign direct investment (FDI) smooth in India by withdrawing restrictions imposed by Foreign Exchange Regulation Act (FERA). The basic purpose of NEP is to facilitate investment by the Corporate Sector within the country and permit free flow of foreign investment with a view to imbibe hi-technology and assimilate the Indian economy with the World economy.

Though NEP was proclaimed in July 1991, in fact this NEP was in continuation with and further extension of the policy of Liberalisation which was initiated since 1975. The then Prime Minister Mrs. Indira Gandhi did not want to make a sharp departure with the past policies of protected economy. Hence a process of mild liberalisation was initiated by her in 1975 and a number of industries were thrown open for participation by large business houses and companies covered under the MRTP Act and FERA. The international and national situation then prevailing did not permit a major change in the industrial policy thereby changing the role of industrial sector. Licensing procedures were modified and unauthorized capacities created by the corporate sector were regularised.

The Government exempted medium entrepreneurs from the licensing provisions of Industrial Development and Regulation Act (IDRA) in a number of industries. The principal objective of the Government was to raise production and the objective of checking concentration of economic power was relegated to the background. After this the Industrial Policy of 1980 extended further the process of liberalisation. Under the IDRA automatic expansion facility was made available universally. The Government decided to launch a drive to revive the efficiency of public sector undertakings and thus a mild attack was made on the public sector.

Impact of Economic Reforms on Industry

Several earlier studies have attempted to analyze the impact of the economic reforms of 1991 on the economy and industrial sector of India. In one of the earlier studies Nambiar et al. (1999) started from the expectation that trade liberalization "encourages economic activity and hence raises production and employment"; he then asked whether this was also true in the Indian case. Although this expectation may be justified in the longer run, it seems somewhat unrealistic to expect immediate benefits since trade liberalization always implies increased foreign competition, which in turn may lead to the closure of less competitive firms and therefore job losses and income reduction in the initial phase following trade liberalization. One may argue, though, that by 1999 it was possible to expect the longer-run impact of augmented productivity, competitiveness and accelerated growth. This raises questions about the timing of the reforms and about the time lags essential to achieve the longer-run changes. In spite of the accelerated growth figures of the mid-1990s being already available, Nambiar et al. (1999) concluded that "trade has over the years shrunk India's manufacturing base, both in terms of value addition and employment". Although the authors admit that "this 'high protection-high cost-poor quality' syndrome desirable to be corrected by import liberalisation", their assessment of the reform impact is rather pessimistic. Chauduri (2002) also reported that

The new economic policy and industrial rearrangement consequent to NIP have far reaching implications for economy in general and industrial relations in particular. But the crux of the problem is that these economic reforms emphasis on increase in output without a commensurate growth in employment. This situation is termed as jobless growth. But the uncommitted administrators do not assess the gravity of the problem of unemployment and its impact on social life. Various reasons can be attributed to this.

Public sector employment has reduced as it is withdrawing from many areas. Globalization of the economy has increased competition internal as well as external. This atmosphere is not conducive to generate employment opportunities to the existing young population in the organized private sector. Under the impact of SAP, the large sized firms have started downsizing their workspace and also changed their production norms. The production is shifted from organized to unorganized sector on the pretext of SAP, Core and non-core parts of the work. casualisation, contractualization, rationalization, outsourcing and the like. In order to remain competitive they are using new technology which is more automated and which replaces man for the machine, or in other words capital intensive technology is being used instead of labour intensive technology. Therefore, it is not job creating. The prevailing global restraints on economy read with the provisions of the IDA and other enactments are proved to be insufficient to provide secured employment to growing young population of the country.

Employers are using various cost saving devices by shedding excess workforce through VRS. The closure, merges of undertaking is also a prevalent practice of the last one and a half decade. Though new jobs are created in some sector like Information Technology, but they are not enough for the every year increasing young population. Outsourcing has also provided jobs to small units most of the times they are unorganized workers. In big cities multilflextheators and shopping malls and call centers have been established. They have provided employment to limited people in urban areas only. But these people are working on a very low wage, even below the minimum wage. They have no jobs security, work temporarily mostly on contract basis. To this extent globalization has created employment opportunities. But this employment is not quality employment. This employment may be a forced employment because of the lack of jobs opportunities in other sector. The young and educated people have no job satisfaction. So the frustration among the youth is increasing. In addition to this construction, workers, both skilled and unskilled in urban areas have increased and they are to the extent of almost one crore and mostly unorganized. The laws meant for them is floated and become a glaring example of sweated labour. LPG has accelerated urbanization.

The employment on contract basis is also on rise. It lasts only till the tenure of the contract. The traditional industrial relations system and practice of protecting and promoting workers interest through secured employment seemed to be reversed. In view of Prof. Punekar and others the focus of industrial relations has shifted from the regional / industry level to the enterprise or even plant level. As the enterprises have moved to centre stage, the enterprise level industrial relations have acquired unusual prominence. The economic reforms might have increased industrial productivity and foreign direct investment in capital intensive areas. But it has failed in creating jobs. That is why Government of India is announcing various employment schemes like National Rural Employment Guarantee Scheme.

Domestic Reforms and the Business Environment

Three features of the business environment are considered here, first the bureaucratic side of doing business, then the supply of infrastructure and utilities, and finally policies furthering technological progress. One of the typical aspects of India's traditional business environment has been far-reaching regulation. Many authors have referred to it as the "licence raj" and identified it as an obstacle to faster growth and development. The reforms of the early 1990s gave rise to policy changes in this respect and led to an alleviation of the bureaucratic burdens imposed on the business community. In spite of these changes, the regulatory arm of the government is still strong and very present. The sample firms were asked whether they needed government clearance for their business and the majority of responding firms (20/36) reported positively. As 11 expected, the pharmaceutical industry is foremost in this respect, with 9 out of 11 firms citing licensing requirements. For wood products (4/7), metal products (2/6) and auto parts (2/7) industries follow with minority views.

In the area of infrastructure and utilities manufacturing industries rely very strongly on the availability at low cost of energy (petroleum and electricity), transport and communication. It is one of the governments' important tasks to generate an enabling environment, in which these goods and services are available at competitive costs. The sample firms were therefore asked to state their satisfaction or dissatisfaction with regard to these policy concerns. While for communication the satisfaction level was relatively high, with 26 out of 29 responses being positive, energy cost and availability drew largely negative responses, 11/18 for petroleum and 16 out of 31 for electricity. These responses underline the need for further reform in the area of energy supply. For transport services, the responses were similarly negative, with 15 out of 30 responses supporting further improvements of roads and rail transport as well as ports.

Finally, one of the instruments of industrial policy in liberal economies is technology policy. It can take the form of subsidies for research and development or of venture incentives. The latter are more questionable as they tend to distort the incentive structure across the different sectors of the economy. The majority of responding firms (24/37) reported that they did not obtain any kind of particular benefits, whereas five firms reported investment-related support, four firms admitted to receiving technology-related support (in pharmaceutical and metal products) and four more firms claimed to receive other forms of support, such as cheaper credit from public sector banks, worker training and tax rebates.

Conclusion :

Economic reforms of 1991 were helpful to most industries by increasing access to foreign technology and cheaper capital goods & raw materials. Most firms felt that improvement in infrastructure and more flexible labour laws will further aid the growth of India's manufacturing sector. The many industrial units had transformed and achieved the height due to the economic reforms in India. The economic reform had truly helped the business sector at large.

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