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# Impact of New Economic Reforms on Industry

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**Abstract**

It is crystal clear that the development in the small scale and heavy industries after economic reforms has not been developed at a significant phase. It is much lower than before the implementation of economic reforms. Hence, it is concluded that necessary steps should be taken by the Government for effective implementation of economic reforms in the small scale and heavy industries.

**Keywords:** Economic Reforms, Industrial Development, Growth Rate

Most of the western economists identified agriculture with underdevelopment and industry with development. This is on account of the face that most of the developing countries heavily depend on agriculture, while most of the developed countries are highly industrialized. The economic history of most of the nations also shows that with the economic development of a country, the share of the agricultural sector in the national income declines, while the share of the industrial sector increases. Therefore, industrialization is taken as a concomitant of development and many economists argue that, if a developing country is serious about its economic development, it must initiate programmers of industrialization.

## Objectives

This paper is directed towards the following objectives.

- To analyse the need for industrial reforms and,
- To analyse the impact of economic reforms on small scale and heavy industries.

## Industrial development during pre-reform period

Till July 24$^{th}$, 1991, when the New Industrial Policy was announced by the Government of India, the Industrial Policy had been chalked out within the frame-work of the Industrial Policy Resolution, 1956 (IPR, 1956). The roots of the IPR, 1956 can be traced back at least to a decade earlier. Immediately after Independence, it was considered desirable by the Government to announce its attitude towards private capital and to define the scope of state participation in economic activity. This aimed at removing all uncertainties that would have worked as constraints on industrial growth in the economy. This announcement took the form of the Industrial Policy Resolution, 1948 (IPR, 1948).

Industrial Policy Resolution 1956

A number of important developments had taken place in India, since adoption of the IPR, 1948. These necessitated a fresh statement on industrial policy. Among these developments the more important were as follows:

New Constitutions of India, which guaranteed certain Fundamental Rights and provided for Directive Principles of State Policy.

- Completion of the First Five-Year plan and the commencement of the second plan.
- Acceptance by Parliament of the socialist pattern of society as the objective of social and economic policy.
- The development of heavy and machine-building industries.
- The expansion of the public sector.
- The establishment of a large and growing cooperative sector; and
- Encouragement to the diffusion of the ownership and management in the private sector.

Basic Features of Industrial Policy Resolution 1956

Besides reiterating the already declared goals of promoting cottage and small-industries, maintenance of industrial peace, reduction in regional disparities and the need for establishing proper and technical cadres, the most distinguishing feature of the IPR, 1956, was the classification of the entire industrial sector in to three schedules, namely,

The industrial growth rate between I Plan and VII Plan becomes evident from table 1.

**Table 1:** Annual Industrial Growth Rate (in Percentage)

| Plan Wise | Annual Growth Rate |
|---|---|
| I Plan | 5.7 |
| II Plan | 7.2 |
| III Plan | 9.2 |
| IV Plan | 4.5 |
| V Plan | 5.9 |
| VI Plan | 6.4 |
| VII Plan | 8.5 |

*Source:* Dhingra I.C. (2004) The Indian Economy Environment and Policy (384)

### i) Early Growth Phase

Till 1965-66, industrial growth was rapid during the first two decades, especially during the second plan and the third plan. The second plan go as landmark in the industrial history of India. The pace continued during the subsequent third plan also. The high rates of industrial growth witnessed during the period.

### (ii) Slow-Down Phase

Decade of 1970s industrial growth slowed-down after the third plan. Not only industry stagnated during this period, "a blatantly elite-oriented production structure" came into existence. The most damaging aspect of this was a steady decline in the per capital domestic availability of key wage goods and increase in the number of people below the poverty line.

### (iii) Revival during 1980s

The industrial scene underwent a change with the onset of the 1980s. Industrial growth rate moved up during this period and the stagnation which characterized the earlier period could be overcome.

1. Liberalisation of industrial policy entry.
2. Public investment is very high.

## Industrial Development During Post-reform Period

Ministry of Industry is the nodal ministry for formulating and coordinating the Government's policy for the promotion and development of the industrial sector. The Ministry of Industry comprises department of industrial policy and promotion, department of industrial development, department of small scale industries and department of heavy industry.

Department of Industrial Policy and Promotion

Department of Industrial Policy and Promotion is responsible for the formulation and administration of industry policy. The department also looks after the department of number of specific industries. The department reviews trends in industrial production and promotes industrial development through measures such as encouragement of infrastructure development, modernization and technology upgradation and improvement in international competitiveness of Indian industries.

## Industrial Policy Reforms-Deregulation and Delicensing

Major policy changes were initiated by the department in July 1991, to provide competitive and accelerated industrial growth. The thrust of the new policy has been to provide free access to capital and technology in order to induce greater industrial efficiency and international competitiveness. The policy seeks free Indian industry from excessive government regulation and control, so as to allow freedom and flexibility in business decision and for responding to market forces. The policy initiatives have focused on the basic orientation of industry to bench mark itself against global standards.

To pursue the objectives, government has been constantly reviewing the policy framework to bring about improvements. The list of items requiring compulsory licensing have been reviewed from time to time. During 1998-99, three industries namely, coal and lignite, petroleum (other than crude) and its distillation products and sugar industry have been censed deli. Two industries (i.e., coal and lignite; and mineral oils) have been taken out from the list of industries reserved for the public sector accordingly, there is now only a short list of 6 industries under compulsory licensing. All other industries are exempt from licensing. There are only four industries reserved for the public sector and 812 items are reserved as small scale sector.

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**Reforms in the FDI Policy Regime**

The policy of the Government on Foreign Direct Investment since 1991 has been aimed at encouraging foreign investment particularly in care / infrastructure sectors, so as to supplement national efforts.

**The salient features of the FDI policy are as follows:**

- There are two modalities for FDI approval; automatic approval by RBI and Foreign Investment Promotion Board (FIPB) / Government approval;
- 34 categories / groups of high priority industries, identified on the basis of National Industrial classification, quality for automatic approval up to 50/51/74/100 percent FDI depending on the nature of activity;
- Remaining activities require the approval of FIBP / Government.
- At present, FDI is not permissible in agriculture, real estate and insurance activities;
- Full repatriation of original investment and returns except for dividend balancing and foreign exchange neutrality conditions in certain sectors;
- Liberal access to foreign technology.
- Liberal External Commercial Borrowings (ECB) and debt servicing norms; and
- No ceiling on raising Global Depository Receipts.

**Impact of Reforms on the SSI Sector**

The small scale industries sector plays an important role in the industrial development of the country. This sector contributes nearly 40 % of the total industrial output, besides having a 35 % share in direct export, 7 % of Gross National Product and substantial generation of employment. Major initiatives were taken by the department during 1992-99 to improve the competitive strength of small scale industries. The definition of tiny sector has been revised enhancing the ceiling for plant and machinery from ₹ 5 lakh to ₹ 25 lakh to help the tiny units to modernize / upgrade their activities and become more competitive. About 60 % of the credit flowing to SSI sector under priority sector lending has been earmarked for the tiny sector to ensure that the credit earmarked for the tiny is not cornered by the larger units within the sectors. Further, the excise duty exemption limit for small scale industry including the tiny units has been enhanced from ₹ 30 lakh to ₹ 50 lakh with effect from 1.6.1998. It has also been decided that minimum of the 40 % of the plots under the Integrated Infrastructural Development (IID) scheme should be allotted to tiny units. Similarly, the National Small Industries Corporation (NSIC) has also been asked to earmark 40 % of the assistance to the tiny units in respect of supply of machinery on hire purchase, marketing support, technology assistance, training facilities etc. for the promotion of tiny sector, a separate package of facility and incentives has been provided.

**Performance of SSI Sector**

The number of small scale units increased to ₹ 30 lakh, the overall production in the small sector was continuously maintaining a higher growth rate compound to the overall industrial growth. Similarly, the level of employment in this sector has also recorded a continuous increase. In 1997-98, the overall employment reached the level of 16% million persons. The contribution of the SSI sector in exports during 1997-98 has also been significant i.e., ₹ 43946 crore as compared to ₹ 39249 crore during 1996-97. The growth of small scale industries has been one of the most significant features of planned economic development.

### Impact of Reforms on Heavy Industry

There are 48 operating Public Sector Undertakings (PSUs) under the administrative control of the Department of Heavy Industry, which are engaged in manufacturing, consultancy and contracting activities. Besides, there are two holding companies viz., Bharat Bhari Udyog Nigam Ltd. (BBUNL) and Bharat Yantra Nigam Ltd. (BYNL). The total investment (Gross Block) in these 48 enterprises was about ₹ 6600 crore till March 1997 and they employed about 1.93 lakh persons. The annual turnover of these enterprises was more than ₹ 1100 crore in 1997-98. These undertakings operate in diverse fields ranging from highly sophisticate engineering based products to consumer utilities and catering mainly to equipment needs for infrastructural sectors. The department closely monitors the functions of these enterprises regularly and takes effective measures for strengthening and improving their performance. One of the PSUs of this department namely BHEL has been identified as a "Navratna" and some more PSUs have been identified to be Mini-ratna qualifying them for greater autonomy.

**Table 2:** Illustrates the industrial growth rate from VIII Plan onwards

(in Percentage)

| Plan wise | Annual Growth Rate |
|---|---|
| VIII Plan | 8.0 |
| IX Plan | 4.5 |
| X Plan | 8.3 |
| XI Plan | 10.5 |
| XII Plan | 11.00 |

*Source:* Dhingra I.C. (2012). The Indian Economy Environment and Policy, P. No. 384

### Recession during 1991-94

During 1991-92 and subsequently in 1992-93, industrial production suffered a setback due to the rise in the cost of imports because of the cash margin requirement and the downward adjustment of the exchange value of rupee and the light money policy. The setback in industrial production suffered during 1992-93 and 1993-94 were distinctly differed than those in operation in the immediate post period. During this latter period, credit controls had almost been totally dispensed with; rates of interest had been distinctly brought down. Import compression was never that serious as in 1991-92 with foreign reserves overflowing the bag.

### Revival and Subsequent Slow down 1994-2002

The slow down in the rate of industrial growth during 1991-94 turned out to be only transitional, an immediate fallout of the stabilization measures initiated by the Government for the macro-economic adjustment of the economy, or to use Prof. K.N. Raj's eloquent words, if "while the gears are being changed and new directions are set". It may be noted that the rate of industrial growth began to accelerate in the second half of 1993-94.

The rural purchasing power has been severely affected by lower agricultural growth and increased fluctuations in growth in the 1990s and in particular by the absolute decline in production during 1999-2000 and 2000-01.

### Sharp Revival

Green shoots had begun to appear in the first two quarters of 2009-10. The manufacturing sector, in particular, showed a remarkable robustness. The industrial production increased by 10.8 % during 2009-10. Post recovery industrial output growth has been largely driven by a few sectors such as the automotive sector along with a revive in cotton textiles, leather, food products and metal products. The momentum of growth was maintained during 2010-11 also. The industrial sector recorded a growth of 10.8 %. Industrial production exhibited volatility widely in the range of 2.7 % to 16.6 %. While earlier, the volatility was associated with capital goods in the use based classification, components like consumer non-durables and basic goods fluctuations.

Investors discovered the BRICS (Brazil, Russia, India and China) and a flood of money, spurred on by low interest rates in the developed world, found its way into the to emerging markets. This helped Indian firms to raise money and invest. Both consumption and investment did well. It was also the period which saw the emergence of the mortgage market in India.

### Slowdown and Decline

Industrial production suffered a setback in 2011-12. By the last quarter of the year and in the first half of 2012-13, the situation took a serious turn for worse. Growth rates declined in the two key sectors of manufacturing and mining. Within manufacturing sector, the lower figures for both capital and intermediate goods suggest declining investment and industrial activity. Higher interest rates might have moderated consumer demand, but it is also likely that many private sector players deferred investment decisions in the face of large and growing uncertainties in policy making. The sharp drop in the mining index is explaining by the lackluster performance of the coal and gas sectors. Many new mining projects have been delayed for environmental reasons. The absence of clear land acquisition and utilization policies has also not helped either. On the side, there are many instances of companies not exploiting the coal beds allotted to them for captive purpose.

### Suggestions

- Various measures should taken to simplify the procedures and encourage private participation in infrastructural development.
- Several steps must be taken to induce foreign investment, especially in high priority areas.
- Power Purchase Agreements signed with private developers for setting up Power Projects.
- Economic development of India should be based on the harmonized growth of agriculture and industry.
- Ensuring availability of top class physical and social infrastructural facilities.

- Private sector investment in power generation should be encouraged to meet increased demand.
- Special programmes on vendor development, quality awareness and pollution control should be implemented
- Loan to the industrialists with low rate of interest should be provided.

## Conclusion

It is crystal clear that the development in the small scale and heavy industries after economic reforms has not been developed at a significant phase. It is much lower than before the implementation of economic reforms. Hence, it is concluded that necessary steps should be taken by the Government for effective implementation of economic reforms in the small scale and heavy industries.

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