Introduction

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Introduction

The purpose of this study is to examine the impact of economic reforms on Indian manufacturing sector. Macro economic policies were changed in 1991 after Indian economy faced balance of payment crisis. On 24 July 1991 new industrial policy was announced to promote the private sector by relaxation of regulations. Industrial licensing was abolished in many industries. Besides, areas reserved for public sector were narrowed down and greater participation by private sector was permitted in core and basic industries. The reforms should be seen as being complementary to those undertaken in trade, financial and fiscal policies and in the management of the exchange rate. Trade quantitative regulations have been relaxed since 1991. The exchange rate was unified and rupee rate started to float in 1993. Indian industries were exposed to not only competition in domestic market but also competition with imports. The pressure from WTO encouraged trade liberalization. The wave of globalization swept towards India. 1991 was the turning point of economic policies. However, economic liberalization had started in the 1980s. A comprehensive industrial policy statement was made in July 1980. In 1985 government announced the delicensing of 25 categories of industries. The deregulation was extended to other industries afterwards. Rupee exchange rates had been devalued gradually in the 1980s. On the process, industrial structure changed in some industries. The 1985 textile policy permitted increase of loomage in the mill sector and stopped takeover of sick mills with no reasonable expectation of becoming viable. Regulation of cement industries was removed before 1991. In this study, therefore, we define economic reforms in a broad sense. They include reforms in the 1980s.

Each industry group had different impact. We analyse each used-basis industrial group, i.e. capital goods, intermediate goods, consumer non-durable (CND) goods, and consumer durable (CD) goods industries. They are categorized on the basis of three-digit level industrial classification (Appendix). In capital goods industries, the organized sector is playing important role. Intermediate good industries are heterogeneous. Economies of scale are important in petrochemical and iron and steel industries. In consumer non-durable goods industries, the unorganized sector is playing an important role in production as well as employment. In consumer durable goods industries, many foreign companies have entered. Authors analyse industries from their points of interests.

R. Nagaraj examines the effects of economic reforms on output, investment, and employment in the first chapter. Total manufacturing sector growth

rate during 1992-2000 is slightly lower but statistically significant, compared to that during 1981-91. The slow down after the reforms is mainly in unregistered manufacturing, as the growth rate of the registered sector has remained the same.

Shuji Uchikawa analyses capital goods industries in the second essay. Investment boom occurred in the first half of 1990s. Some industries in consumer durable and non-durable goods industries grew in the first half of 1990s. Growth of these industries increased demand of intermediate goods through backward linkage. To meet expanding demand, lumpy investment was implemented in the four industry groups between 1994-5 and 1996-7. Large-scale investment created demand for capital goods. GVA of capital goods industry group accelerated after 1991-2. Production capacity grew faster than demand. Consequently, over capacity made appearance in four industry groups and utilization of capacity declined. GFCF decreased with time lag. Although GVA of capital goods industry group in 1996-7 and 1997-8 was still much higher than GVA in early 1990s, we cannot expect its rapid growth.

Rajendra R. Vaidya investigates the intermediate goods with a special emphasis on cement and steel at both the level of the industry as a whole and at the firm specific level. At the sectoral level we find that in both the industries production, labour productivity and real wages grew rapidly. While capital productivity was stagnant and real prices fell in both the industries. At the firm specific level market shares of leading firms have fallen in both industries. Small firms have considerable difficulty in raising resources to fund investment and this constrains productivity increases in this segment. Financial distress is concentrated in the small industry segment in both cases though this is less pronounced in the steel industry where financial distress is more evenly distributed across size classes. In the case of the steel industry this could lead to pressures to rollback reforms and increase protection in particular and governmental support in general.

Tirthankar Roy examines CND goods industries in the fourth paper. Given the very nature of the reforms, it is logical to expect that the reforms would affect the CND industries deeply. Most CND industries are labour-intensive, so that export-incentives are expected to benefit them positively, whereas domestic deregulation such as easing protection of small firms is likely to intensify inter-firm competition within CND. Both processes together can be expected, *a priori*, to force some firms to exit and enable the others to improve efficiency. In the organized sector of CND, the post-reform period has seen a distinct improvement in performance and efficiency. On the other hand, the unorganized sector presents a more complex picture. If we confine ourselves to employment, income or output, it is a picture of decline. If we look at labour productivity, unorganized sector has increased in efficiency just as impressively as the organized sector. It is too simplistic to suggest that the unorganized sector as a

whole declined in the post-reform period. A more sober conclusion will be that segments of unorganized industry saw shrinking markets, whereas other segments saw adjustments to improve efficiency and competitiveness.

K.V. Ramaswamy analyses CD industries in the fifth essay. CD industries have grown faster in the post-reform period relative to the pre-reform period. This growth is attributed to the high rates of capital formation due to the liberalization of licensing and entry conditions. Labour productivity, employment and wages are found to have risen faster in a number of CD industries in the reform years. The market structure of CD industries is also shown to have changed with declining concentration in the reform period. The move towards competitive conditions has resulted in the decline of real prices of consumer durables relative to manufactured goods. The impact of economic reforms is welfare enhancing in terms of lower consumer prices and product variety.

It seems that while growth rates of production and labour productivity came up after economic reforms, prices went down. In this context, economic reforms were effective to strengthen competition and improve efficiency. On the other hand, growth rates of production have declined since mid-1990s. Impacts of economic reforms are limited. Economic reforms could not solve over capacity.

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