

ECONOMIC REFORMS OF INDIA AND ROLE OF ENGINEERS

B. Bhowmik

Previously with Mechanical Engineering Department,
Kalyani Govt. Engg. College, Kalyani

1. INTRODUCTION

The economic growth of India has accelerated during the past decade after a long period of stagnation, often deterioration. The present forex reserve of US\$200 billion is a testimony to that. The activities in the development of infrastructure like Golden Quadrilateral Road Project, Gramin Sark Jojana, metropolitan development projects, new airports, sea ports, bridges, etc. are all due to the progress in economic development of the country. Huge amount of foreign direct investment (FDI) during the last few years has accelerated the development process in the country. Advent of Indian brain power in the field of information technology and related services, sustenance of economy even after economic sanctions by USA after nuclear tests, etc. have earned respect and confidence for democratic India in the comity of nations. The picture of Indian begging bowl has dramatically changed into a potentially rich and powerful country, a place for safe business and economic activity, a source of talents and reliability. The contributions made by engineers and technologists of the country in the transformation are all matters of pride and jubilation. Though there have been several policy changes and reforms earlier, they did not succeed as much as the latest reforms as large number of engineers are by now available to translate the policy into perceptible actions.

The reforms in India took place in two phases.

The first generation which was started around 1991 and then the second generation which is currently on its way. Why the need for reforms at all? Why the delay in taking the reform measures? Why if reforms started in 1991 did not complete its purpose?

So the author shall consider that even though the first generation reforms delivered what it promised but its incomplete nature and certain non-deliverance aspects led to the need for second generation reforms. He will look into the conditions for failure and factors which shall make the reform program a reality because there is a difference between proposing and really delivering the goods.

2. WHAT IS A REFORM

It is an improvement over the existing by either removing some existing fault or introducing a new dimension, a new thought, a new policy.

When India gained its independence after a long period of subjugation, its land and people were a picture of distress, removed from great events of its past glory and splendor. A whole creative side of Indian civilization had shrunk under the foreign rule. Common man, burdened by poverty, hunger and ignorance, had lost the will to exercise its productive might.

The economy was marked with low per-capita income, scarcity of capital, unemployment, inequitable

distribution of income and poverty, predominance of agriculture and absence of industrial culture, technological backwardness and Lack of entrepreneurship, etc.

The objective of India's development strategy after Independence has been to establish a socialistic pattern of society through economic growth with self-reliance, social justice and alleviation of poverty. These objectives were to be achieved within a democratic political framework using the mechanism of a mixed economy where both public and private sectors coexist.

Indian initiated planning for national economic development with the establishment of the Planning Commission, in 1950.

The initial phases of the plans i.e. the first three year plans emphasized on the development of heavy industries and envisaged a dominant role for the public sector in the economy. The planners and policy makers suggested the need for using a wide variety of instruments, licensing and other regulatory controls to bring about Industrial development on a closed economic basis. But the public sector did not live up to the expectations of generating surpluses to accelerate the pace of capital accumulation and help reduce inequality.

The Fifth Plan (1974-79) initiated a program emphasizing growth and distribution. To accelerate the process of production, a mild version of economic liberalization was started in the mid-1980's. There was some progress in the process of deregulation during the 1980's. Two kinds of delicensing activity took place. First, 32 groups of industries were delicensed without any investment limit. Second, in 1988, all industries were exempted from licensing except for a specific negative list of 26 industries. Entry into the industrial sector was made easier but exit still remained closed. Thus this laid the foundation for the first generation reforms.

3. THE NEED FOR REFORMS

The original development strategy emphasized on **Government sponsored production**, control over private sector through licensing and other policies, steep import control, rigidity in labour market for the sake of equity, lack of foreign investment, overprotection for the domestic industry, reservation policy.

This type of development strategy resulted in an economy where there was absence of competition and thus deterioration of quality, exploitation of consumers, misallocation of resources, discouraging individual initiatives and entrepreneurship.

It is now worth to discuss in details why the above mentioned features of initial development strategy were not enough for providing sustainable growth. Let us consider the following :

a) The Small Scale Units

The small scale industries are protected from competition from the large scale sector by means of subsidies, grants, monetary incentives from the Government, reservation of certain items of production in the small scale sector etc. Yet they failed to generate wealth, employment, quality product and face competition. Large scale sickness and unproductive assets hampered the economic growth of the country. Engineers have not been attracted to this sector of industry.

Therefore the economic reforms have to address the issue of Small Scale units and their nonperformance. The reforms need to realized that in a free economy, the small scale industrial sector is not insulated from competition from the large scale sector and for their survival and growth' they will have to face competition from the large scale sector out of their own ingenuity and resources.

Many of the goods reserved for SSI's have a good international market but India is not able to complete because of the inefficiency of the SSI's which due to the above reasons are producing low quality products. De-reservation of SSI items therefore is critical to boost exports. For example, China rules the world toy market because there is no restriction on size of industry. By changing our rules we can compete well with China in these sectors. It is also felt that much of the reservation for SSI sector is not longer relevant.

b) The Public Sector Units

A large amount of investment has gone into public sector units. The sectors like heavy and basic industries, banks, financial corporations, railways, air transport were all exclusively reserved for the public sectors during the plans. But the performance of Public Sector Units (PSU) over the last 50 years was dismal. Subsidies and losses of PSU's account for 14-15% of GDP in the year 2000.

Now the question is why this dismal performance of PSU's? The answer can be found in underutilization of capacity, undue political influence, poor productivity and lack of proper responsibility for result.

Recent reports of the PSU's performance show that over Rs. 23,000 crore of public investment in PSU's earn a meager 2% annual return.

Attempts of making good business out of PSU's have failed in the past 15 years and thus privatizing or disinvestment for the govt's equity in the PSU's and opening up of the hitherto closed areas to private sectors is the need of the hour as this would succeed in promoting competitive advantage, reduce political interference, produce better quality goods, provide better quality services, reduce wastage and optimize resource utilization.

c) Labour Laws

The weaknesses of the labour policies need to be addressed in an objective manner. Employment security should not overshadow the growth of the industry, economic activities and affect the competitiveness and redundancy of the product in a global market. It should also ensure fair wage, social security, and address retrenchment and redundancy related problems. Establishment of National Renewal Fund and other schemes are required for the success of a dynamic labour policy.

d) Trade Policy

The trade policy introduced in India just after independence was based on an inward looking strategy of development. This policy aimed at making India self-reliant through import substitution rather than export promotion.

This coupled with a growing concern about forex constraints led to severe import restrictions by a complicated import licensing policy. The policy or import control however couldn't solve the balance of payment problem so much so that the Forex reserves declined to such a low level that it was just sufficient for two weeks of import requirement. Post WTO era has brought in the realization that over-protection of local industry cannot be a suitable means for global competition. The situation called for following reforms in the trade sector.

Export promotion through devaluing the Rupee and making export earnings tax free.

Import liberalization--- to provide export houses easy access to raw materials from abroad, by reducing custom duties and reduction of the tariff rates.

Capital account convertibility to encourage foreign investment.

e) **Land Reforms**

Agricultural growth remained constrained for long. The situation calls for stringent reforms in holding pattern, land ceiling land acquisition, etc. The recent agitation against land for special economic zone (SEZ), bug industry and infrastructures development, etc. has highlighted the importance of the urgent reforms in this direction.

4. **FIRST PHASE REFORMS**

India launched a programme of economic reforms in July 1991 during the Prime Ministership of Mr. P.V. Narashiman Rao. Major Programme of economic liberalization was carried out. The salient points of the programme are as follows :

- a) Number of licensed industries reduced from 14 to 9
- b) 9 areas reserved for Public Units (PSUs) have been opened up
- c) 15 industries, hitherto reserved for Small Scale Industry (SSI), have been decreased
- d) Public sector reforms include greater functional and operational autonomy and divestment
- e) Policies to encourage investment in infrastructure
- f) Efforts to make foreign investment policy simpler
- g) Foreign Investment Promotion Board (FIPB) set up for speedy clearance of Foreign Direct Investment (FDI) Foreign equity up to 74% allowed under automatic clearance.
- h) Liberal export policy & reduction on export control
- i) Various measures of import decontrol
- j) Gradual disinvestment of Government equity in nationalized banks

Scope of foreign direct equity investment under RBI's automatic approval scheme has been enhanced Indian companies have been permitted to accept investment under the automatic approval route without the prior permission of RBI.

Control of inflation, and reform of the tax system to encourage efficiency and productivity through constant technological upgrading and determined improvements in capital output ratio.

Ten years after the reforms began, the Indian economy stands transformed to a great extent, but it has been increasingly realized that the reforms were of incomplete nature. The first generation reform measures did not deliver all it promised. The reason are that although it lead to an era of complete removal of License Raj, opening up of trade and Foreign investment, certain areas which were left out are the public sector units, labour laws. The privatization of the PSU's was partial in nature. It is increasingly recognized that a broader set of reforms is needed to sustain high-quality growth in a globalized environment and to close the disparity between the rich and poor countries. This necessitated the second phase reforms.

5. **SECOND PHASE REFORMS**

The base for the second generation reforms was laid in the union budget of 2001 by finance minister Yaswant Sinha. The salient points are :

- a) Privatization of PSU's viz. Maruti Udyog, VSNL, Air India, Balco
- b) Public Sector bank recruitment board has been abolished by July, 2001. Banks have to make their own recruitment themselves.
- c) Labour Laws :
Companies employing 1000 or less workers will be allowed casier layoffs of surplus labour

Industrial Disputes Act and Contract Labour Act to be amended for labour reforms.

A new insurance policy to provide for 30% of the last drawn salary for retrenched workers.

d) **The Trade Policy Reforms**

The bring down tariff levels to ASEAN levels in three years.

The 40 per cent limit of investment in a company under the portfolio investment route by FIIs being increased to 49 per cent.

Foreign direct investment permitted through automatic route in all industries except for a small negative list Setting up of Special Economic Zones (SEZ) to encourage export production.

Foreign Direct Investment (FDI) up to 100 per cent permitted in e-commerce, subject to specific conditions.

Peak protective customs tariff rate reduced from 40 per cent to 35 per cent ad valorem.

The existing five major ad valorem rates of basic customs duty reduced to four.

6. **ROLE OF ENGINEERS**

The role of engineers and technologists in the success of economic reforms of the country is very important. The engineers are needed to transform the policies into reality. Since all economic activities boil down to some form of production and service activities, engineers play the vital role in this conversion. One of the reasons for poor performance of initial five year plans is the scarcity of efficient and sufficient number of engineers and technologists in the country. During the last 15-20 years, the availability of technical manpower has improved substantially in the country, so also the economic performance.

a) The engineers are required to implements the project efficiently in time. The time and cost

over-run in the early five-year plans made of the projects sick from the very beginning. The economic growth of the country of the country suffered heavily. Hence, the over-runs have to be controlled at any cost.

b) Indian engineers and technologists have been dowing excellent jobs abroad. There is hardly any foreign organization where Indian engineers are not occupying the vital posts and responsibilities. Many of them left the country for want of congenial atmosphere in the country. Business houses also preferred to import technology and design from abroad. This often led to second generation and out date technology getting way into the country.

c) With the introduction of economic, reforms and change in working atmosphere in the country, reversal of brain drain should take place. Many foreign companies are starting their busienss here, investment in R&D and business outsourcing process in big ways. Now, the engineers have opportunities and challenges right in their home place. They have to rise to the occasion, face the challenge and make the country pround.

d) Many companies are now spreading their wings into the foreign land against techno-commercial challenges from giant companies. Indian engineers have to make these ventures successful. There is no doubt in thie ability as they did it earlier in foreign companies, now they will be dowing even better. It professionals have earned India fame and fortune during the last several years in the world. Whn foreign campanies were hunting for talents from India, the economic benefit to the country was marginal. With economic reforms and global competition, India will now supply products and services to the developed countries there

by improving the national economy substantially.

- e) Technical institutions producing the engineers have to give special attention to the quality of their products. The syllabus and curricula should be updated regularly. Systems adopted by the controlling universities of the institutions is often insensitive to latest demand of the industry. Teachers should also be regularly updated with training in industry. Our university and institutional managers should be trained in scientific management practices to ensure quality engineers to the nation. It should also dream to spread their wings in foreign land and attract students from abroad. With the reforms, foreign universities will set up their branch institutions in our country. Our institutions have to gear themselves up to meet the challenge.
- f) There is no denying the fact that presently the engineers are in good demand. A large numbers of them are recruited by IT and ITES companies. Even the students of conventional engineering like mechanical, civil, architecture, etc. are recruited by these companies. This leads the student to think about the futility of the conventional engineering subjects, they tend to neglect studies in the subjects. There is a recent trend that many of the students get employment assurance from the industry in the pre-final year of their course. Instead of relieving them from prospects of job, they tend to neglect the studies. Theses two factors, a recent by product of

economic reforms, are detrimental to production of quality engineers. The consequences will be serious if ways are not found out soon to correct this trend.

- g) Indian ethics and ethos have a long and rich tradition. It is very important for our engineers to follow and maintain at its highest standard in their professional life. The law makers make laws, economic planners plan, but the engineers executes for the benefit of the people. The best result can be obtained only when the engineers maintain the work ethics and ethos properly. Many of our engineers have proved it even by sacrificing their lives.

7. CONCLUSION

Economic reforms have brought in a lot of advantages and benefit to the nation. The benefit needs to be distributed and dispatched to all. With a billion brains and abundant natural resources, there is no reason why Indian can be the richest nation in the world. The economic development of the country has started in full swing with the reforms. The momentum has to be maintained. The development endeavor has brought in a few associated problems. These have to be eliminated. The open economy has also brought in competition from developed countries which need to successfully met. Engineers have a significant role in this development process and successfully facing the challenges ahead.