International Journal of Scientific Research and Engineering Development-– Volume 3 Issue 6, Nov-Dec 2020

Available at www.ijsred.com

RESEARCH ARTICLE OPEN ACCESS

Transformation of Indian Economy from Licence Raj to Competition ERA

Sandhya Kumari

INTRODUCTION

Indian economy had made an attempt to move from command and control regime to the regime based on free market principles thus, unleashed the latent and suppressed energy of our people and with the aim to promote the interests of consumers and to ensure freedom of trade carried on by other participants in the market. It has been an exemplar shift, in approach to economic policies, in the external sector, foreign direct investment, and the financial sector.

Paper throws light on shift from the post-Independence socialist-style economy to the world's largest free market economy i.e., three modes of economic administration. These are the planned economy till the end of the 1970s where government has final authority to take decisions regarding production, consumption and distribution. The licence raj system was result of planned economy, to start a business, one has to obtain approximately 80 licences, which are resultant into disinterest in taking new initiative and also somehow increased the corruption rate and fraud that lead to downfall in growth. Secondly, limited liberalisation period of 1980s made a sea change in terms of licensing policy in favour of large business houses, making them free from the provisions of MRTP ACT and FERA. Thirdly, the post-reform period beginning in early 1990s to unshackle the Indian economy from cobwebs of unnecessary bureaucratic control and to introduce liberalisation focusing on economic freedom, free trade policies, foreign investment in the form of FII and FDI.

There has been radical change in our trade situation since 1991 is perhaps unprecedented in Indian economic history since independence. With the emergence of new economic policy of 1991, a need was felt for promoting competition in domestic market, technological up-degradation and modernisation hence COMPETITION ACT of 2000 was passed. The objectives are to prevent anti- competition practices, to promote and sustain competition in markets, to protect the interests of consumers, and to ensure freedom of trade for all participants in the markets in India. Despite of positive elements which will lead to desired level of competition,

 ©IJSRED:All Rights are Reserved

the negative elements in this act will reduce or eliminate any obstacle that stand in a way of fuller competition. The main questions authors would discuss in this paper is how in the present milieu of competitive environment, competition is key to survival of a business which is surrounded by rivals from within and without? What are the economic challenges India still faces in pushing ahead with reforms so that it remains not just the world's biggest free market democracy, but so that it becomes the most exciting and dynamic one, are largely political?

Pre-1991 Economy

Economy of India in pre-British era had been self-sufficient agricultural and rural in character. Country was prominent in the world for its handicraft industries in cotton and silk textiles, metal and precious stone works etc.[1] At the drawn of the independence from the British colonial rule, Indian economy was in shattering, state mass population of poor, illiterate and unemployed sections of the society was looking towards the national leaders of that period for building a new India which could provide positive hopes to them.[2]

Indian economic environment after centuries of external subjugation has unwaveringly undergone a drastic change due to the government policies. The Indian national congress under the inspiration of charismatic Prime Minister Pt. Jawaharlal Nehru was in favour of a greater role of government in all activities of development for achieving social justice. He paved the way for creation of a large base and scope for public sector by introducing the First Industrial Policy Resolution in 1948 and sets up the national planning committee which advocated that state should own and control all means of production.[3] This could lift up the socio- economic and growth of the country as enshrined in 2nd five year plan (the Nehru-Mahalanobis strategy of industrial development through capital goods and heavy industries), this strategy emphasised investment in the heavy industries to achieve industrialisation which was assumed to be the basic condition for rapid economic development. Hence, planned industrialization became a major doctrine for tackling economic backwardness in developing countries.[4] The planners felt that immense natural and human resources of the country was ideally suited for industries, resources should therefore be applied more towards development of industry rather than to agriculture sector. Indian agriculture was suffering from heavy population pressure on land. Marginal productivity of labour on land was zero and negative. This pressure on land could reduce by shifting surplus population to industrial sector. The setting up and expansion of the industrial sector became necessary condition for raising national product. Rapid industrialisation was an

 ©IJSRED:All Rights are Reserved

essential condition for the development of not only agriculture sector but also the other sectors. With the expansion of industrial sector and the shifting of labour from rural to urban areas, the demand of food grains and agriculture raw materials would increase. At the same time increased production and supply of fertilizers, pesticides, agricultural machinery etc. would help in the expansion of agriculture production. Hence the growth of industrialisation and expansion of market there would be expansion of trade and commerce in transportation, in banking and finance etc.[5]

Although the Nehru model of development provided a tremendous role for public sector undertakings but also left some field for private sector to bloom. Since the adoption of first Industrial Policy Resolution in 1948 significant development took place in India. According to this policy industries were be kept under three- public sector, private sector and the joint sector. Hence, it contemplated a mixed economy. Later on, in the second industrial policy replacing policy of 1956 gave a new classification of industries. The first category comprised industry which would be solely owned by the state i.e., 17 industries under state control –arms and ammunitions, atomic energy, iron and steel, heavy casting and forgoing of iron and steel; machinery required for iron and steel production, for minings, for machine tool manufactures etc, heavy electrical industries, coal; mineral oils, mining; iron ore and other important minerals like copper, lead and zinc;

aircraft; air transport, railways, ship building; telephone, telegraph and wireless equipment; generation and distribution of electricity.

The second category consisted of industries which the private sector could supplement the efforts of the state sector, with the state taking sole responsibility for starting new units; there were twelve industries – other mining industries, aluminium and other non ferrous metals not included in category 1; machine tools, ferroalloys and tool steels, the chemical industry; antibiotics and other essential drugs; fertilizers; synthetic rubber, carbonization of coal; chemical pulp; road transport and sea transport.

The third category consisted of remaining industries which were to be in private sector. Despite of having a separate category of private sector yet it was kept under the state control through licenses. Under the Industries (development and regulation) act 1951 which was passed to implement the industrial policy resolution of 1948 and to empower the government to take necessary steps to regulate the pattern of industrial development through licensing.

 ©IJSRED:All Rights are Reserved

Licence raj was the outcome of Indian planned economy where each and every aspect is controlled by states and central government. It was required to

(i) establish a new factory,

(ii) carry on business in an existing unlicensed factory

(iii) significantly expand an existing factory capacity,

(iv) start a new product line and

(v) Change location.

No new industry was allowed unless a license was obtained from the government. This policy was used to promote industries in backward areas, it was easier to obtain license if the industrial unit was established in backward area. Apart from this they also got concessions such as tax benefits and electricity at lower tariff. Even the existing industries have to obtain license to expand its production or to diversify their activities. This was basically meant to keep check that quantity of goods produced should not be more than it is required in the economy i.e., licensing became the key means of allocating production targets set out in the 2nd five year plan and in 3rd year plan which continued on the same strategy with tremendous investment in heavy industries, but the deficiency of target operated a failure of planning. However, the point that needs to be highlighted is that industrial targets influenced industrial growth significantly but they could not determine it. Shortfall in available inputs and foreign exchange, delayed execution, exigencies of the licensing procedure itself and similar factors often held up fulfilment of targets by holding up licensing or installation of licensed capacities or their utilization to achieve target levels of production. The reliance on licensing could restrict but not encourage investments by the private sector in fulfilment of the targets.

Applications for industrial licenses were made to the Ministry of Industrial Development and then reviewed by an inter-ministerial Licensing Committee. The bureaucratic nature of licensing policy imposed a substantive administrative burden on firms and increased corruptions. There was also considerable uncertainty that whether license application would be approved within the time frame or not. For example 35% of licenses were rejected between 1959 and 1960. Delays in approval process were common and of indefinite length. The Licensing Committee reviewed applications on a sequential, first-come, first-served basis, and since the 2nd-year plans laid down targets or ceilings for industrial capacity, this provided an incentive for pre-emptive license applications. This system favoured the larger industrial houses (e.g. Birla, J.K. and Tata)

 ©IJSRED:All Rights are Reserved

which were better informed, organized and submitted multiple early applications as a means of foreclosing on plan capacity as per the reports of Hazari committee.[8] After this, Government of India appointed a committee under the chairmanship of Mr. Subimal Dutt in 1967 known as industrial licensing policy inquiry committee basically to inquiry the working of licensing system in India. The Dutt Committee recognised the fact that industrial licensing which was specifically meant to implement industrial policy of government, but it failed to achieve the objective of planned economic development. It was a negative instrument. The committee while accepting the fact that other monetary and fiscal instruments be pressed into service to achieve the goal of the development, still voted for the continuance of the licensing system as to make it perfect instrument of industrial growth.

Between 1950s and 1980s the economy of India stagnated around 3.5% and there was low annual growth rate.[10] There was a large public sector and losses were incurred by state-owned enterprises. Government sought to restrict the scope and the growth of private sector through industrial policies of 1948 and 1956 along with the licensing procedures hence monopoly of public sector was created ultimately leads to poor infrastructure investment. Many large enterprises in the private sector carried their operations through virtual monopoly and oligopoly. Taking advantage of the absence of foreign competitions, these entered into collusion and eliminated internal competition openly or secretly. They got effective control over the market and exploited the innocent consumers. Many enterprises created artificial scarcities of the products and gave the impression of excessive demand of their products. These enterprises even influenced government policies to their own advantage and ensured favourable tax measure, fiscal incentives for export and foreign collaborations agreements. They raised huge financial resources from financial institutions. Consequently they enjoyed their monopoly power and hence there were restrictive trade practices and to overcome these practices MRTP act of 1970 was passed.

Recognition of the problems in economy environment of India because of prevailing licensing system led to various reforms undertaken in 1970s which made an attempt to consolidate the application process and to boost exemption and expansion limits. The Industrial Policy Statement of 1973 culled high-priority industries where investment from large industrial houses and foreign companies would be permitted and Industrial Policy Statement of 1977 set emphasis on decentralisation and development of small-scale and cottage industries.

©IJSRED:All Rights are Reserved

Before 1980s witnessed that economy was largely based on central planning, set out the private sector at periphery of the economy. But 1980s onwards, Indira Gandhi and his son Rajiv Gandhi began a process of liberalising. The general assembly brought about the industrial policy statement of 1980. Main gist of industrial policy was to regularise the excess capacity installed over and above the license capacity .Apart from this government also proposed to adopt privileges of automatic expansion of capacity to all industries so that there would be full utilisation of capacity and maximization of production. In pursuance of this policy a new licensing policy was adopted which aimed at reviving the economic infrastructure inhabited by infrastructural gaps and inadequacies in performance. The objective of new licensing policy reflected a thirst for the yields of industrialisation and economic progress .This policy exempted the licensing requirement for an existing licensed undertaking to substantially increased production capacity on the existing lines,

If the total investment does not exceed at 3 crore and if it does not require foreign exchange in excess of 10%of ex- factory value of output or rupees 25 lakh whichever is less. No new license was required to manufacture a new item and no license should be obtained for small scale units to produce any of the items reserved for the sector under the following conditions-

- Unit must not belong to any dominant undertaking as defined in MRTP act.

- The unit and other interconnected unit must not possess asset exceeding rupees 20 crore.

- In respect of foreign ownership, there must not be over 40% of equity owned by foreign companies or subsidies or foreign individual.

- The item must not fall under schedule A of industrial policy of 1980.[13]

To sum up, the industrial policy of 1980 had liberalised licensing for large and big business houses but by blurring the distinction between small scale and large scale industries it sought to promote latter at the cost of former.

1991 First Generation Reforms

Dr. Manmohan Singh was appointed to the position of Finance Minister in 1991 under Prime Minister P.V. Narasimha Rao. He faced the crucial 1991 Balance of Payments crisis.India's foreign reserves barely amounted to US$1 billion, enough to pay for a few weeks of imports.

In 1991, Singh ushered in the dramatic, first generation economic reforms. They were dramatic in that they were "structural", dismantling many post-Partition socialist-style policies.[14] The changes aimed to unshackle Indian firms and entrepreneurs from red tape, foster competition, and open India to the global economy. Singh started the process of simplification and rationalisation of the tax system. Many controls and regulation on the industry were removed, which meant the death of the Permit Raj and a free rein to entrepreneurs.

The reforms may be put into three broad categories: External Sector Reforms, Foreign Direct Investment (FDI) Reforms, and Financial Sector Reforms. Each is discussed in turn below, with greatest emphasis on the first category. Across all three categories were three common denominators: de-regulation, privatisation and rationalisation.

External Sector Reforms

The "external sector" includes not only to international trade (imports and exports), but also to exchange rates and capital flows. Indian reforms on trade were particularly impressive, even dramatic. The foreign trade policy in India was made very restrictive after initiation of the programme of industrialisation in the Second Plan. Only import of capital equipment, machinery, components, spare parts, industrial raw material was allowed. Import of all inessential items was strictly controlled. In order to rectify the situation, devaluation was carried out. It was followed by announcement of new foreign trade policy and foreign trade reforms.

There are some of the major measures which have been undertaken to reform the external sector of the nation:

Exchange Rate Stabilisation

The rupee was overvalued for most of the period prior to 1991 thus adversely affecting exports. The rupee was devalued twice in July, 1991 amounting to cumulative devaluation of about 19 precent.India also dismantled the dual exchange rate system it had created to cope with the 1991

 ©IJSRED:All Rights are Reserved

BOP crisis, eliminated foreign exchange licensing, and requirements concerning export-based imports and import compression.[15]

The RBI used to control the foreign exchange in accordance with the Foreign Exchange Regulation Act, 1973, as amended periodically. By 1993, and since then, the rupee was freely convertible for all current account transactions (i.e., for purposes of Article VIII of the Articles of Agreement of the International Monetary Fund).[16] To be sure, the float is a managed one, but that is hardly peculiar to India. And full capital account liberalisation has yet to occur, which again is not an expectation unique to India. It was in 1994 that various types of current account transactions were liberalised from exchange control regulations with some indictive limits. Certain capital account Anne O. Krueger &Sajjid Z. Chinoy, Introduction, in Reforming India's External, Financial, and Fiscal Policies. transactions were also freed from exchange controls. India is moving towards fuller capital account convertibility in a phased manner.

FDI Reforms

Amidst the first generation reforms were legal and policy changes to encourage FDI. Egregious regulations were wiped away in favour of aggressive inducements to attract multinational corporations (MNCs) to open, expand, and operate production facilities in India, and hire Indian workers. Three such clusters of measures stood out.

- India relaxed investment (equity share ownership) limits on foreign direct investment (FDI) in certain sectors, such as telecommunications. In particular, reversing pre-1991 strictures, India dropped its insistence on restricting FDI entry to government-determined priority sectors, and eliminated its 40 percent cap on foreign equity participation in joint ventures (JVs).
- India eliminated trade-related FDI restrictions. No longer was a foreign direct investor obligated to export a certain percentage of its production. That obligation had been as high as 100 percent in some sectors, and was manifestly designed to protect Indian producers of like products. India also dropped domestic production content obligations, so foreign investors could source inputs and intermediate items from the most efficient suppliers, whether they were Indian or not. Again, the pre-1991 rule had been designed to protect domestic suppliers.
- India created Special Economic Zones (SEZs). They were modelled loosely after the famous SEZs in China inaugurated in the late 1970s in the Deng Xiaoping era.

 ©IJSRED:All Rights are Reserved

- India began improving its intellectual property (IP) regime. Foreign direct investors (as well as exporters) look carefully at the state of intellectual property rights (IPRs) as a factor in deciding where to place an investment: they expect not only protection at least at internationally-acceptable levels, but also actual IPR enforcement by legal and judicial authorities. And they do not want to be forced to transfer patents, trademarks, copyrights, or trade secrets to local firms. As the 1998 WTO Appellate Body Report in the India Patent dispute India emerged from the Uruguay Round (1986-1994) of multilateral trade negotiations with a sub-par record on enactment and enforcement of IP laws.[19] So, with the 1991 reforms, India loosened requirements about technology transfer. It extended patent protection to pharmaceuticals, agricultural chemicals, and certain food products.

Financial Sector Reforms

Financial sector reforms aimed to liberalize commercial and investment banking markets and institutions operating in India. Three market reforms were key: partial freeing of interest rates; promotion of competition among commercial and investment banks; and creation of a new securities exchange for equities trading.[20] The reforms also included technological innovations, such as electronic trading and un-certificated securities, and greater efficiencies in clearing and settlement.

Underlying all three categories was a shift in economic ideology from the era of Prime Minister Nehru and his daughter, Prime Minister Indira Gandhi: away from central planning, and toward the market. Trade was not to be discouraged, but promoted. Foreign investment was not to be regarded with suspicion, much less hostility, but to be pursued. Finance was not to be a backward and inefficient sector, but rather a dynamic, innovative link between savings and investment. Among the many indicators of the paradigmatic shift was the shrinkage in the size of the Indian government. The central government fiscal deficit as a percentage of GDP dropped from 7.7 to 5.5 percent between 1990-1991 and 1992-1993.

The reforms worked quickly. Spurred by a private sector unshackled from government strictures, real annual growth in Indian GDP exceeded 6 percent in the mid-1990s. In 1996, the share of exports in Indian GDP rose to 9.2 percent, and between 1993 and 1996, Indian merchandise exports

 ©IJSRED:All Rights are Reserved

and imports (measured in U.S. dollar value terms) grew at an average rate of 20 percent per annum.[21] The share of India in the growth of world exports increased. So:

Together with deregulation of industry and fiscal stabilisation, these external sector reforms yielded exceptionally good results by the mid-1990s. Export growth soared to 20 percent in three successive years, inward remittances quadrupled to $8 billion by 1994-95, foreign investment rose from negligible amounts to over $6 billion by 1996-97, foreign exchange reserves climbed steeply from the precarious levels of 1991 to over $26 billion by the end of 1996-97, and the debt-service ratio was halved over the decade.

Competition Policy Era

LPG model liberated the industry from the shackles of the licensing system, reduced the role of public sector and encouraged foreign private participation due to which India became a global which expanded the scope of international and intercultural relationships The modern organisation is a global organisation that has to compete in global prospective. Hence, Indian markets now have to face competition from within the country and outside. After financial crisis highlighted the importance of healthy and effective competition thereby firms would innovate more and keep their prices down for consumers and ultimately improves productivity.[22] Increased competition gave the customers wider choice in purchasing better quality goods and services Competition helped the firms to utilise the capacity to produce, it increases the efficiency and optimum allocation of resources so that productivity can be improved. Competition act of 2000 was passed removing the MRTP act as it was not in tune with liberalisation policy, to promote ensure freedom for all participants in market, promote and sustain all types of competition, prevent and discontinue those practices which are against policy of competition, to prevent the dominant power in the market and to regulate amalgamations and acquisitions which are likely to reduce competitions.

New Needs for Competition Policy

The Indian corporate sector has utilized a variety of strategies in the post-reform period to cope with the increasing competitive pressures due to internal and external liberalisation. With the maturing of the Indian oligopolies, the competition policy needs of the country are also undergoing changes. Some salient aspects of the changes in the Indian industrial sector are:

 ©IJSRED:All Rights are Reserved

- The Indian corporate sector is vigorously restructuring itself. Restructuring is mainly geared towards consolidation in few chosen areas to correct the inefficiencies created by over-diversification in the pre-reform era.
- MNCs have actively participated in the merger and acquisition process to get market entry or to strengthen their presence. Acquisitions have been used by MNCs to quickly get access to various complementary assets.
- MNCs are better placed for domestic firms in the acquisition game because of their deep pockets and relatively cheaper access to capital. The intentions to invest in India by MNCs are significantly influenced by these differences in the cost of capital.
- The reliance of the Indian corporate sector on foreign technology purchase has increased. More and more technology flows are now tied with equity. Purchase of technology (especially foreign) is taking precedence over R and D; in house technology generation has taken a backseat. Besides, a large variety of inter-firm alliances are taking place.
- Firms are making efforts to improve manufacturing capability. This is being done through building alliances as well as through initiatives within the firm. Quality upgradation seems to be an important priority. These efforts at improving manufacturing capability may still prove to be inadequate to meet the competitive challenges. These inadequacies may also adversely affect India's chances of efficiency seeking FDI, the need for which has been emphasised.
- Product differentiation strategy seems to be dominating over strategies of building distribution and marketing related complementary assets. Such a strategy helps Indian firms to stand up to transnationals with their strong and internationally recognised brands. Yet, because of inadequate attention to R and D and manufacturing, which have significant pay off but in the long run, the long-term competitiveness of many Indian corporates is in doubt. Besides, interestingly, distribution and marketing related expenditures (and not advertising) seem to have led to higher margins and profitability in the 1990s.
- Export based growth strategies are being adopted by some of the corporate sector firms but such strategies are not widespread; export orientation increased appreciably in the early years of reform but have seen a major collapse since 1997-98. Overall, exposure to the international market is still inadequate to put the Indian firms on higher growth and learning trajectories.

 ©IJSRED:All Rights are Reserved

- Overall, concentration levels in most Industrial groups have either shown no trend (increase/decrease) or have declined during the 1990s. In very few product groups a trend increase was observed during the post-reform period. However, a large number of industries remain very concentrated even in the late 1990s.
- While no significant trend was observed in the price cost margins for most of the industries profitability rates were positively affected by product group specific concentration levels in the 1990s. The fact that a similar relationship has been observed for the 1970s and 1980s suggests stability of the links between concentration and profitability.

The policy initiatives will need to encourage investments in R&D and in complementary assets like manufacturing, etc. It would also have to ensure rapid increases in exports. The cost of capital advantage of the MNCs is real and needs to be tackled squarely. Else, the Indian corporate sector may not be able to win the battle in spite of all the strategic initiatives mentioned earlier. At the moment, the MNCs seem to hold an unfair advantage over domestic firms in the M&A game. Despite the fact that there is no increase in concentrations in most industries, they remain high in many industry groups. While it is difficult to ascertain whether higher profitability in concentrated industries is a result of collusion or higher efficiency, given the positive link between profitability and concentration, a competition policy focus on concentrated industries is unavoidable. However, as Indian oligopolies mature with a wide range of non-price competitive strategies, the task of competition authorities to distinguish between market power and efficiency related influences will become increasingly difficult.

Current Scenario and Challenges Faced by Indian Economy

From the beginning of the second decade of the present century, the bad phase of Indian economy started where the GDP growth rate remained below 5 percent for the two consecutive years in 2012-13 and 2013-14.[24] This below 5 percent growth rate for two consecutive years was last witnessed way back in 1986-87 and 1987-88. However, in the current financial years i.e. 2014-15, Indian economy started showing the signs of recovery and is poised to overcome the below percent growth rate witnessed for the last two years. This moderation of growth after achieving three consecutive years of above 9 percent growth rate between 2005-06 and 2007-08 is the fall out of failure of Indian economy to cope with several external and internal challenges.

 ©IJSRED:All Rights are Reserved

In the external sector, persistent uncertainty in global outlook caused by crisis in Euro area and general slowdown in global economy compounded by structural constraints and inflationary pressures in domestic economy resulted in protracted slowdown. In order to cope with the external challenges like global slowdown, country should have adequate foreign exchange reserves, sustainable level of current account deficit (CAD), stable exchange rate, etc.

However, things have improved a little now as the year 2013-14 ended with the CAD of 1.7 percent of GDP, exchange rate after plummeting to INR68 per US$ in August 2014 improved to INR 60.49 foreign exchange reserves raised to USD314.9 billion dollars in June 2014. These developments on external account have generated some optimism that Indian economy is now better prepared to confront the challenges in external economy.

In the domestic arena also, improvement is observed on fiscal front as fiscal deficit declined from percent of GDP in 2011-12 to 4.5 percent in 2013-14. Much of this improvement on fiscal front is achieved by reduction in expenditure rather than improvement in revenue. Nevertheless, the corrections in fiscal and current account deficit augur well for macroeconomic stabilization.

Despite the improvement in twin deficits, some structural challenges are enumerated by Economic Survey 2013-14 which were responsible for current economic slowdown in India –

- Difficulties in taking quick decisions on project proposals have affected the ease of doing business. This has resulted in project delays and insufficient complementary decisions.
- Ill-targeted subsidies cramp the fiscal space for public investment and distort allocation of resources.
- Low manufacturing base, especially of capital goods and low value addition in manufacturing. Manufacturing growth and exports could be facilitated with simplified procedures, easy credit and reduced transaction cost.
- Presence of large informal sector and inadequate labour absorption in the formal sector. Absence of required skills is considered as an important reason.
- Sustaining high economic growth is difficult without robust agriculture growth. Low agricultural productivity is hampering the economic turnaround.

 ©IJSRED:All Rights are Reserved

- Issued related to significant presence of intermediaries in different tiers of marketing, shortage of storage and processing infrastructure, interstate movement of agriculture produce needed to be addressed.

Other challenges faced by Indian economy which hamper the movement towards higher growth trajectory includes energy, infrastructure, growth inequalities, policy paralysis, slow employment growth, disappointing manufacturing sector growth, slowdown in services particularly internal trade transport and storage etc.

For the revival of sustainable growth of over 8 percent in the coming years, a multi-pronged approach is required to correct the structural anomalies. Growth and employment generation can be improved directly by increasing the investment rate. But investment cannot be increased by merely manipulating the interest rate. If an investor didn't find the atmosphere conducive to make adequate returns on expenditure, low interest rates can't force to invest savings. Thus the foremost challenge before the new government is to create an environment which is investment friendly and which can attract capital not from just domestic sources but from the foreign sources as well.

Conclusion: The Way Forward

We have highlighted some of the major dilemmas faced by economies in transition in the context of competition policy, and argued that some of the solutions to these dilemmas are not simple. Broadly, competition policy is essential for an economy in transition as it complements other liberalising initiatives. However, the scope, sequencing and timing of competition and other policies will have to be determined by each economy according to its on compulsions and needs.

Like other countries, India will have to explicitly take into account its historical and the socio-economic context while contemplating competition policy reforms. Many of the extant distortions in the market have been caused by earlier policies/institutions. In such a scenario, simultaneous dismantling and creation of institutions to safeguard competitive forces is a difficult task. There are different perceptions about the major competition related problems facing the country today. Consequently, developing a consensus on competition issues will remain a complex task. The analysis strongly suggests that significant efforts are required at the

 ©IJSRED:All Rights are Reserved

policy level to explicitly recognise the links between policies relating to competition, trade and investment on the one hand and macroeconomic policy initiatives on the other.

It is time that the ministries of finance, industry, commerce and Law work together! It also needs to be recognised that due to contextual and other differences, no single institutional model is applicable everywhere. While such differences will remain, certain basic principles in institution building like independence of the competition agency, adequate resource availability, significant analytical skills and transparency of its actions would be crucial for deterring anti-competitive behaviour in all countries. Selection of personnel is one of the most important parts of institution building. It may also be crucial to ensure that the regulators do not become over-enthusiastic, resort to over-regulation and misuse their powers. Capture of the competition agency by the regulators is as likely as the capture by the regulated. Such a fear seems more real in de-regulating environments like India. Ill-defined jurisdictions only facilitate such over-enthusiastic regulation.

At last we want to conclude, in India protection and controls are being replaced by a competitive and de-regulated open economic system. In the pre-reform era, various restraints to competition existed:

(i) investment restraints (licensing);
(ii) control over acquisition of economic power through Monopolies and Restrictive Trade Practices Act (MRTP);
(iii) public sector reservation for infrastructure and other industries creating monopolies in various areas;
(iv) product reservation for the small-scale sector;
(v) government procurement policies favouring public and small-scale sectors;
(vi) rade restrictions and high tariffs; and
(vii) restrictions on foreign direct investment.

The new economic policy has both the positive as well as negative results for India. Because of the globalisation opportunity to access global market, high technology, and increased possibility of large industries of developing countries to become important players in International era. On the other hand it compromised welfare and identity of people belonging to poor countries and widened the scope of economic disparities among people and nations. Market economy has increased the consumption of high income groups and growth has been only in service sector

 ©IJSRED:All Rights are Reserved

such as telecommunications, information technology, finance. Entertainment, travel,real estate etc as a result important sectors like agriculture and manufacturing Industries which provided livelihood to millions of people in the country.

Reforms have not benefitted agriculture and industrial sector as there had been decline in public investment in this sector. Industrial sector has slowed down due to availability of cheap imports and lower investments. Free market competition ensured capitalist justice. Every factor of production is paid according its contribution and there is no exploitation. Secondly economic efficiency by making price equal to marginal cost and resources use efficiency is maintained.There is complete freedom at market place - freedom to choose, freedom to take decisions and free opportunities to follow. It breaks up monopolies. According to global competitiveness index India is ranked very low however it has law of competition to punish the firm's that violates the rules of competition. The world capitalist countries and international institutions are pressing hard for further reduction in tariffs and duties so that it became more accessible to foreign firms. Indian firms are becoming more mobile.