



TARUN DAS

REWIRING INDIA INC

Consumers could choose, companies faced competition, ambition trumped fear

AN ECONOMIC TSUNAMI hit India in June 1991 with the abolition of import and industrial licensing, followed by the doing away of several other laws, controls and regulations. There were two sets of responses from industry. One group felt this was unsustainable: Business would continue as usual, the opposition would force a reversal and life would go on in a protected economy. Those who felt the reforms were wrong, lost the opportunity to change — many well-known business houses went “under”. The second set of responses was to strongly welcome the removal of handcuffs on industry, rapidly go into restructuring mode and prepare for a new world. These are the business houses that survived and prospered despite facing multiple new challenges.

The first challenge was the entry of MNCs through the joint venture (JV) route. India attracted them to quickly conclude JVs without doing complete due diligence on the Indian partners. The “cowboy approach” was one description. On the Indian side, companies eager to access new technologies and products, also did not do their homework. The cultural fit had not been worked out and many marriages failed.

Why the haste? Simply because the reforms gave centrality to the consumer who till 1991 did not have a choice. June 1991 changed that. The Indian consumer was given choices and companies, both foreign and Indian, wanted to be their first choice. The surge of new demand from the marketplace transformed the scenario, reflected in GDP growth rapidly moving up to 7 per cent per annum.

Some Indian companies sought more time to adjust, seeking a ‘level playing field’. But, many corporates restructured themselves and transformed into competitive forces. The new reality of reduced customs duties and industrial licensing disappearing, removed the protection umbrella and Indian companies, by and large, who had been planning for this day, were ready to face this challenge.

With this came competition. For the first time, Indian companies faced real competition from other Indian as well as foreign companies. Some Indian companies sought more time to adjust, seeking a “level playing field”. But, many corporates restructured themselves and transformed into competitive forces. The new reality of reduced customs duties and industrial licensing disappearing, removed the protection umbrella and Indian companies, by and large, who had been planning for this day, were ready to face this challenge.

There was another significant change in June 1991. Till then, the government and industry were at a distance from each other. The micromanagement of industry reflected this mistrust. June 1991 changed all of that. Led by A N Verma, principal secretary to the Prime Minister, the government’s dialogue with industry deepened. Consultations were frequent. Feedback on what was happening on the ground was taken regularly. A government-industry partnership became a reality.

Possibly, the most significant change brought about by the reforms pertained to the level of “aspirations” of the industry. There was excitement and ambition to be world-class. Fear became a matter of the past. And, in this, the IT industry led by TCS, Infosys and Wipro played a major role. They stood eyeball-to-eyeball with global competitors and succeeded. They showed that Indian engineers and managers were the best in the world. They exuded confidence which spread to others.

Another major change that flowed from June 1991 was about entrepreneurship —

not just the big boys of the industry, but also, the small and medium sectors that became part of the new energy in industry. Component manufacturing and exports were new initiatives from ancillaries and suppliers of major manufacturers. This was an endeavour that expanded.

Infrastructure had always been the preserve of the public sector. This changed and the private sector was invited to participate, to get into public-private partnerships and end the government’s monopoly. No longer would infrastructure be owned, controlled and managed by the government alone.

Banking had been nationalised in 1969, but the reforms of 1991 gave birth to a new private sector bank — HDFC Bank — which, after due diligence by the government and the Reserve Bank of India, opened its doors in 1994. This was a huge step forward in the reform process.

Finally, corporate governance. An industry-led initiative brought out the first-ever task force guidelines and report on corporate governance. This was followed by many other actions and policies.

The private sector, which had been seen very differently up to 1990, was placed at the centre of the reform process. And this has continued and grown since then. There is still a long way to go, but the die that was cast in 1991 has led to a new tsunami of change. Over the last 30 years, the Indian industry has expanded its global reach. Its products and services are internationally competitive, matching the best. The period from 1991-2021 was transformational.

The writer is former Director General, CII