

Dissertation

Title: 1991 Economic Liberalisation Reforms in India:
A Micro-Level Analysis

Word count: 9,997

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*Paper submitted in partial fulfilment of the requirements for the Degree of Master of Science
in Contemporary India at the University of Oxford*

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Appendix: List of Abbreviations

FP	Factors of Production
GDP	Gross Domestic Product
GNP	Gross National Product
LFPR	Labour Force Participation Rate
M&A	Mergers and Acquisitions
MNE	Multi-national Enterprise
MRTTP	Monopolies and Restrictive Trade Practices Act
MUL	Maruti Udoyog Ltd
NSS	National Sample Survey
OECD	Organisation for Economic Co-operation and Development
PUCL	Peoples Union for Civil Liberties
PUDR	Peoples Union for Democratic Rights
Rs	Rupees
SAIL	Steel Authority of India Limited
SCs	Scheduled Castes
SME	Small and Medium Enterprises
STs	Scheduled Tribes
TFP	Total Factor Productivity
TISCO	Tata Iron and Steel Company
US	United States of America
WVS	World Values Survey

1. Introduction

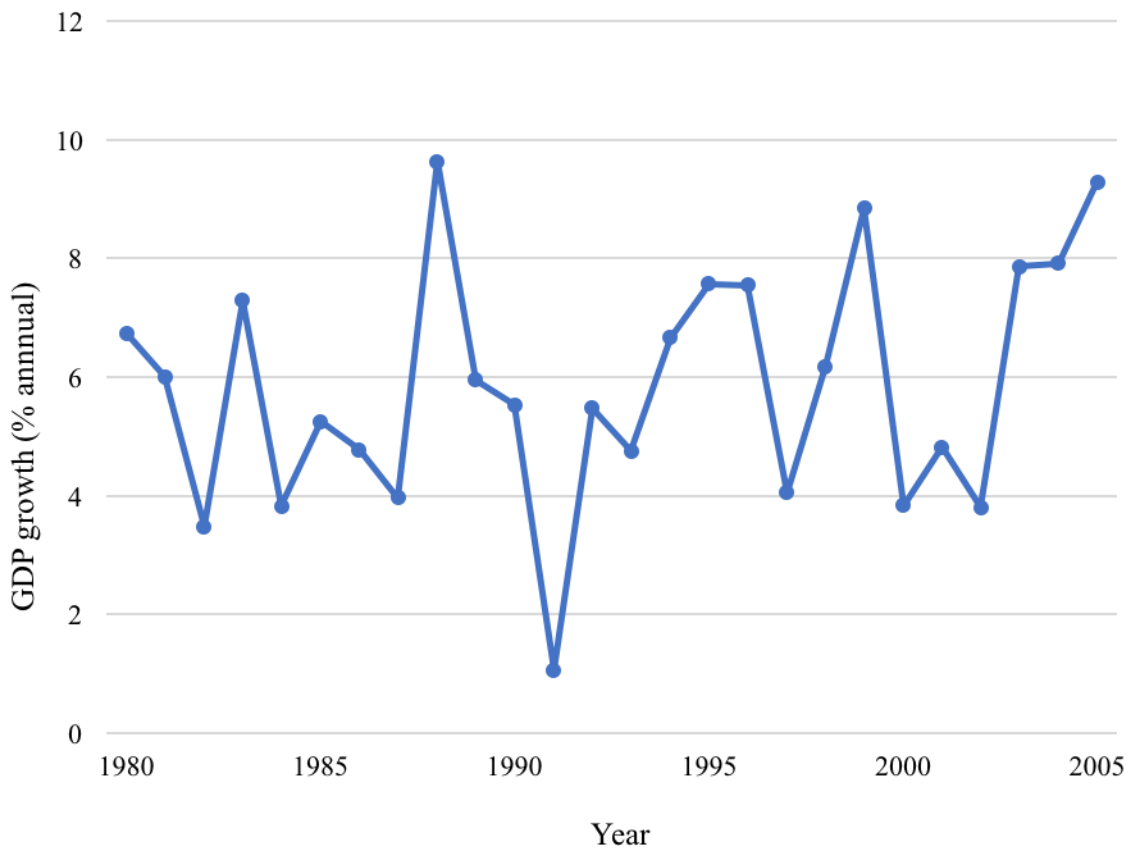


Figure 1: GDP growth in India, % per annum (World Bank, 2017)

In recent decades India's economic growth trajectory has been marked by a distinct acceleration, delineated from the 'Hindu' growth rate of 3.5% that characterised the period following independence until the mid 1970s (Rodrik and Subramanian, 2005). This has been preceded by an average GDP growth rate of 5.7% between 1981-82 and 1990-91, 6% between 1992-93 and 2001-02 (Ahluwalia, 2002:67), and a peak rate of 9% in the 'boom' years between 2003-04 and 2007-08 (Nagaraj, 2013:39). India's economic growth 'miracle' is commonly explained by the swathe of liberalising reforms introduced by the government in 1991, widely argued to mark the end of the dominant 'license raj'. Met with euphoria by many scholars at the time (Bhagwati, 1993; Srivivasan, 2003), they signified 'a fundamental transformation of India's economic strategy' (Varshney, 1999:230).

However, whilst anticipated economic growth was likened to unleashing the ‘caged tiger’ (Crook, 1991:5), substantial increases in growth and efficiency failed to materialise throughout the 1990s, only shifting significantly in 2003. As a result, debate emerged over the proximate causes and timing of the break in India’s economic growth. Two orthodoxies dominate this literature: that liberalisation in the 1990s led to disappointing macro-economic outcomes, and that there was a distinct break in economic growth in the 1980s that can be attributed to a range of factors.

Comparable to these dominant growth orthodoxies, several scholars (Virmani and Hashim, 2011) have argued that the 1991 liberalisation reforms did lead to increases in growth and productivity, but with a lagged effect, manifest in the 2003 growth boom. They contend that a major structural adjustment in the economy, such as the 1991 reforms, leads to an initial slowdown in productivity and output as firms adjust to the novel environment. Once they have adapted, an acceleration in growth and production ensues. Whilst this proposition is supported by macro studies of India’s aggregate economy, there is limited explanation of the changes reforms initiated at the micro level of the economy, inclusive of firms and individuals, and how these contributed to growth in the 2000s.

From delineating this gap in the literature, I identify the following research question: *To what extent did the 1991 liberalisation policies in India lead to the economic boom in 2003?* In responding to this query, I will utilise a three-pronged analytical framework drawing from economic theory of what constitutes the necessary preconditions for liberalisation to be a ‘success’, in terms of enhancing GDP growth and efficiency. These preconditions are as follows: corporates change the way they do business (Aggarwal, 2003); factors of production (land, labour, capital and entrepreneur) become more mobile (Onyemelukwe, 2016); and individual attitudes change (Heller, 2009). This will evaluate the micro level impacts of the 1991 reforms, and in doing so will develop comprehension on the intermediary step to growth, between the macro level reforms and aggregate growth. As a result, it intends to determine

the origins of growth, as well as delineate the changes that liberalisation needs to induce to generate growth and productivity. Furthermore, it will contribute to the wider debates about liberalisation and growth.

This dissertation argues that liberalisation did lead to growth in India, but with a lagged effect. It further contends that liberalisation facilitated changes at the micro level; leading to dynamic shifts in the functioning of the economy and the economic actors within, which proceeded to become more profit and market oriented. By 2003 this gave rise to the emergence of a more competitive, focused and productive corporate force. This was aligned to the benign global environment at the time; a boom in world trade, growing at 16.5% per annum in 2003-2008; high capital flows to emerging markets, doubling in 5 years; and a global communications revolution enabling extensive opportunities for outsourcing (Nagaraj, 2013:41). This combination resulted in the substantial growth boom of 2003.

It is worth mentioning at this point what this study does not aim to do. It will not assess changes in the informal sector. Rather, it will analyse changes in the formal corporate sector, primarily in industry and services, as this is where the growth boom of the 2000s that this study seeks to explain was focused. In addition, it will not quantify the impact of liberalisation reforms on the 2003 boom, nor assess the comparable scale of the impact of liberalisation on growth in the 2000s.

Following the introduction, this paper proceeds as follows: section 2 will outline the theory that liberalisation leads to economic growth, dissect the orthodoxies of India's growth debate and literature on its lagged growth, and then outline the research questions; section 3 will delineate the analytical framework, and collection of data; section 4 will present the analysis of findings; and section 5 will present the conclusions, including recommendations for further research.

2. Literature review

This section will firstly define key terms, delineate the theoretical argument that economic liberalisation leads to increased growth and productivity, then outline the 1991 reforms in India. It will proceed to critically engage with the two orthodox sides of the growth debate in India to ‘situate the project in its relevant context’ (Hart, 2010:19) and identify existing gaps in the literature. India’s recent economic growth acceleration can be demarcated into two lines of debate: that liberalisation in the 1990s led to disappointing macro-economic outcomes; and that there was a distinct break in economic growth in the 1980s which has been attributed to a range of factors. It will conclude with the research questions.

In this paper, economic growth refers to the rate of GDP growth. This can be derived from an increase in total factors of production (FP), labour, land, capital, and entrepreneur; or from a more efficient combination of FP (McCartney, 2015:5). Productivity increase uses the Total Factor Productivity (TFP) index, a measure of efficiency gains in the use of inputs (FP) (Corbridge et al. 2013:35).

2.1 The theory: liberalisation leads to economic growth

Proponents of liberalisation argue that it leads to an increase in economic growth and productivity (McCartney, 2010). Rooted in neoliberal principles, it advocates the movement from a planned or highly regulated economy to a market economy; implying a roll back of the state and advance of the private sector. The market economy denotes an economic system in which the interaction of supply and demand decisions by private sector agents determine economic decisions and the prices of goods and services. Neoclassical economics assumes that it accelerates growth based on the model of a perfectly competitive market¹. This model predicts that if an imbalance in supply or demand exists in the market, it will generate either excess profits or losses, and lead agents to reallocate resources in response to

¹ The model of a market in perfect competition rests on the following assumptions: large number of buyers and sellers; no buyers or sellers can influence the ruling market by their own action; all buyers and sellers can trade as much as they wish at the ruling market price; all buyers and sellers possess perfect market information; a uniform product; free entry and exit.

those price signals. It will further generate forces pushing it back to a state of equilibrium, in which price and quantity is equal to supply and demand; theoretically resulting in the most efficient allocation of resources. For example, the software sector boom in India in the 1990s led to a shortage of skilled labour in India, which resulted in higher wages for software engineers, and attracted more people to university to learn the relevant skills. In addition, this led to the opening of specialised universities, facilitating more labour in this area. This exemplifies the functioning of demand and supply to improve the efficiency of resource allocation, and thus lead to economic growth.

Proposed advantages of a market economy are increased efficiency, productivity and innovation. With less government intervention, such as using import tariffs to protect domestic firms from foreign competition, it is proposed that competition will increase and drive out inefficiency as businesses are forced to control costs to compete in the open market. In addition, as competition increases, individuals and businesses are more motivated to increase their productivity, and innovate products.

2.2 Liberalisation reforms in India

In 1991, India's Finance Minister introduced the New Economic Policy, entailing a swathe of liberalising reforms leading to a breakdown of the previously dominant 'license raj' (Alfaro and Chari, 2013). These deregulation reforms can be rooted in a combination of external and internal pressures, including stalling economic growth, a balance of payments crisis, and pressures from big businesses to pursue growth opportunities (Aggarwal, 2003:181). In addition, many scholars at the time (Bhagwati, 1993; Srivivivasan, 2003) supported the reforms, insisting that liberalisation would generate faster economic growth. They condemned the previous interventionist policy framework for stifling growth, and thus reforms were met with euphoria, with Varshney (1999:230) declaring they marked 'a fundamental transformation of India's economic strategy'.

Kotwal et al. (2011:1157) outlines the reforms as addressing four major elements of the pre-reform regime: restrictions in the form of tariff and nontariff barriers on imports; restrictions on both the domestic and foreign private sector; state control of banking and insurance; and public sector monopolies. The premise of reforms was that they would facilitate a more competitive environment, improve efficiency and pursue growth (Chaudhuri, 2002:155).

2.3 Two dominant orthodoxies

India's accelerated growth trajectory has been subject to debate in two areas; its proximate causes, and the timing of its structural break (Sen, 2009). This section will outline the two dominant orthodoxies in India's growth trajectory debate: that liberalisation in the 1990s led to disappointing macro-economic outcomes; and that there was a distinct break in economic growth in the 1980s which has been attributed to a range of factors.

2.3.1 Orthodoxy 1: Growth in the 1990s

The first orthodoxy of India's growth debate is that liberalisation in 1991 led to disappointing macro-economic outcomes. Despite significant reforms in 1991, it is apparent that neither growth nor productivity increased significantly in the 1990s. GDP growth evidenced only a marginal increase; with an average annual rate of 5.7% between 1981-82 and 1990-91 increasing to 6% between 1992–1993 and 2001–2002 (Ahluwalia, 2002:67). Disaggregated by sector, only the services sector witnessed a distinct increase from 6.9% in 1981-91 to 8.1% in 1991-01 (Panagariya, 2004:27). The second expectation, that it would lead to enhanced productivity was equally disappointing. Economic efficiency gains measured by TFP increased at 1.57% per annum between 1990-99, compared to 2.49% per annum between 1980-90 (Rodrik and Subramanian, 2005:31). Thus, many concluded that liberalisation reforms had a negligible impact on growth (Ahluwalia, 2002) and scholars have sought to explain these disappointing macro-economic outcomes.

Kohli (2006b) argues that one key factor leading to the stagnation of growth in the 1990s was declining investment, particularly public investment. As a percentage of GDP, public sector capital formation declined from 10.5 in 1985-1990, to 7.0 in 1995-2000 (Kohli, 2006a:254). However, many scholars have argued that public investment is crucial to ‘crowd-in’ private investment (Pandit, 1995), with India specific studies evidencing higher growth rates in the late 1970s and 1980s in line with greater public investment (McCartney, 2010).

Comparably, Ahluwalia (2002) argues that the disappointing growth and efficiency gains in the 1990s were a result of the limited scope of reforms. He argues that compared to the business environment in East Asia and China, India’s reforms were limited, weakening its competitive standing. Ahluwalia (2002) argues that India’s slow reforms, and high levels of protection did not facilitate an evident orientation to tapping export markets. For example, India made slow progress in lowering import duties. Whilst duties significantly declined from 1991, in 2002 India’s weighted average import duty was still double that of China’s (ibid.:74). This resulted in India being a higher cost producer as firms had to pay taxes on any imported production inputs, making it less attractive as a base for export production.

2.3.2 Orthodoxy 2: Growth in the 1980s

The second dominant orthodoxy in the debate on India’s growth trajectory is that there was a distinct break in economic growth in the 1980s that has been attributed to a range of factors. Reasons for this economic take off can be divided between pro-business and pro-market strategies of growth.

Proponents of the ‘pro-business’ argument attribute India’s growth to shifts in government attitudes to business from the early 1980s (Kohli, 2006; Rodrik and Subramanian, 2005). Rodrik and Subramanian (2005) argue the trigger for growth was attitudinal change ‘in favour of private business’ (ibid.:2).

Kohli (2006a:1256) outlines three components of the ‘pro-business’ government attitudinal shift from 1980: prioritising economic growth as a state goal, evidenced in the dilution of the Monopolies and Restrictive Trade Practices Act (MRTP) allowing big business to expand in core industries such as chemicals; supporting big businesses to achieve this goal by providing tax relief to big businesses; and taming labour, by framing strikes as ‘anti-social demonstrations’.

Comparably the ‘pro-market’ argument pursues that it was creeping liberalisation that led to growth in the 1980s (Panagariya, 2008). Such scholars criticise the ‘pro-business’ argument, asserting that it overstates growth and understates reforms in the 1980s. Bhagwati and Panagariya (2013b:31) deem the claim that growth in the 1990s was no higher than the 1980s to be a fallacy of aggregation, finding the bulk of growth in the 1980s between 1988-91, which once excluded leaves the growth rate at just 4.6%, significantly lower than the 6.3% between 1992-93 and 1999-00. In addition, they argue that liberalisation was already underway in the 1980s and played a crucial role in stimulating growth in that decade.

2.4 Lagged effects of growth

Comparable to the dominant orthodoxies of India’s growth trajectory, several scholars argue that 1991 liberalisation reforms did lead to growth, but with a lagged effect, manifest in the 2003 growth boom.

Bhagwati and Panagariya (2013b:31) argue that the 2003 boom can be rooted in specific liberalisation policies of 1991; for example, foreign investment rose from \$100m in 1990-92 to more than \$60bn in 2007-08 due to the liberalisation of the foreign investment regime. Virmani (2005) developed this lagged growth argument further, with the J curve of productivity and growth hypothesis. This hypothesis asserts that following economic reforms of substantial structural transformation, productivity and output growth is lower during the first few sub-periods than in later periods. This is

the result of an initial slowdown in productivity and output growth, due to the obsolescence of product lines and capital, the gradual adoption of new technology, and the diversion of human resources to learning (Virmani and Hashim, 2011:5). Once firms adjust to the new situation and develop capacity, they experience a rise in productivity and output growth. Virmani and Hashim (2011:27) test this hypothesis in the context of India's 1991 reforms, concluding that the data broadly supports the hypothesis, with the J curve entering a high steady state of growth by 2007-8.

2.5 Research questions

From studying the existing literature on India's growth debate, it is evident that a distinct gap exists; analysis of micro level responses to liberalisation in 1991, and their contribution to growth in 2003.

Dominant orthodoxies of India's growth trajectory discussed in section 2.3 assume that liberalisation in 1991 failed to have an impact on growth, due to the disappointing GDP growth and TFP figures in the 1990s. This paper will question this assumption by assessing the micro economic responses to liberalisation in the 1990s, and the extent to which these initiated deep, structural changes in the functioning of the economy, leading to a lagged effect of growth at the aggregate level.

This paper will go beyond macro-economic accounts of liberalisation, focused on aggregate measures of output and productivity. Instead, it will focus on the micro-economic impacts of liberalisation, assessing the responses of firms, factors of production (labour, land, capital, entrepreneur) and individuals; and evaluate how these changes contributed to lagged growth in the 2000s. For example, whilst existing studies have demonstrated shifting TFP rates, they fail to consider the factors that have driven these changes, such as a more efficient use of labour. As a result, they assume that liberalisation makes the economy more competitive, rather than looking at measures of competition or gauging the behaviour of firms to assess this assumption. To this end, this study will provide a micro level

explanation for Virmani's (2005) J curve hypothesis, developing comprehension on the intermediary step to growth, between the macro level reforms and increased output. In addition, it intends to pursue understanding of what liberalisation needs to induce in order to generate growth and efficiency.

To this end, I identify the following research question: *To what extent did the 1991 liberalisation policies in India lead to the economic boom in 2003?* This is broken down into three sub questions.

- a) To what extent did liberalisation policies in 1991 change how corporates do business during the 1990s?
- b) To what extent did liberalisation policies in 1991 increase the mobility of factors of production in the 1990s?
- c) To what extent did liberalisation policies in 1991 lead a change in individual attitudes and values throughout the 1990s?

3. Methodology

Firstly, this section will outline the three-pronged analytical framework and its theoretical justification: changes in how corporates do business; increases in the mobility of factors of production; and changes in individual attitudes. It will then discuss the collection and dissemination of data.

3.1 Analytical framework

As highlighted in section 2.5, this study intends to build on the shortcomings of existing literature by examining the micro-level economic impacts of India's liberalisation reforms in 1991, and their implications for the 2003 boom.

In doing so, the study will employ a distinct three-pronged analytical framework. This will be structured around factors highlighted in the literature as both expectations of liberalisation and preconditions to facilitate its 'success', thereby resulting in increased growth and productivity. These components are: changes in how corporates do business (Aggarwal, 2003); increases in the mobility of factors of production (Onyemelukwe, 2016); and changes in individual attitudes (Heller, 2009). Analysis intends to evaluate the extent to which liberalisation reforms enacted these factors, and further probe how they facilitated enhanced growth and efficiency in the 2000s, thus opening the causal link between liberalisation and growth.

3.1.1 Corporates change the way they do business

The first expectation of liberalisation, and precondition of its success is that corporates change the way they do business (Aggarwal, 2003). Analysis of change will be assessed in three areas; improving competitiveness, pursuing growth and enhancing expertise.

Aggarwal (2003) utilises transaction cost economics as a theoretical framework to explain the changing structure of firms in response to liberalisation. This theory states that the boundaries of a firm depend inversely on the efficiency of external markets; the more inefficient the external markets, the wider the firm's boundaries (ibid.:187). Prior to reforms, the Indian business environment was dominated by widely diversified, vertically integrated groups (Khanna and Palepu, 2000), partially rooted in industrial expansion restrictions in the licence raj. This can be further attributed to high external transaction costs, and the inefficiency of external markets for corporate inputs, making it more efficient to internalise these markets. However, with a move to a market economy it is anticipated that transaction costs will decline and external markets will become more efficient, due to the replacement of bureaucratic controls with market mechanisms (Aggarwal, 2003). This leads to the consolidation of the structure of firms, and a shift in focus to their core competencies.

Furthermore, a shift in corporate behaviour from government seeking to market seeking is anticipated. Prior to liberalisation, business behaviour was government seeking. They were used to dealing with bureaucracy to boost profits, for example by persuading the government to raise subsidies, give them licenses or increase protection from imports. In an increasingly liberalised economy firms must adopt market seeking behaviour to remain viable; seeking to control costs, introduce new products, compare themselves to other firms, and emulate best practice (Aggarwal, 2003). Economic deregulation thus changes the structure of incentives in the economy.

3.1.2 Factors of production become more mobile

The second expectation of liberalisation, and precondition of its success is that FP, defined as inputs used to produce goods and services in an economy, will become more mobile (Onyemelukwe, 2016). Analysis of change will be assessed across the four FP (Marshall, 1890): labour, land, capital and entrepreneur.

To attain the maximum growth in a dynamic situation Onyemelukwe (2016:198) asserts that FP need to be mobile, to maximise factor employment. Schumpeter's (1942) theory of creative destruction expands on this, stating that the innovation mechanism, which leads to the replacement of outdated products with new ones, facilitates growth and efficiency. This process of creation and destruction leads to the deconstruction of FP combinations, freeing up these factor resources to be deployed elsewhere. Hence, FP mobility is imperative to this process, and thus to growth and efficiency. This process can be evidenced in the example of the expanding software sector in India in the 1990s. Whilst the expansion was facilitated by technology development and the liberalisation of trade enabling imports of foreign technology, to grow successfully, labour had to be mobile, entering engineering schools, then software firms; land had to be acquired to build offices; financial capital had to be borrowed from banks to finance investments; and an entrepreneur had to have an innovative business idea to combine these FP.

3.1.3 Individual attitudes change

The third expectation of liberalisation, and precondition of its success is that attitudes of individuals change (Heller, 2009). Analysis of change will be assessed in three areas; attitudes to female employment, attitudes to work, and attitudes to saving.

Changing individual attitudes as a precondition to benefit from liberalisation is rooted in scholarship that links economic performance to specific cultural values, being the informal 'norms, meanings and behaviours' within human society (Fukuyama, 2001: 3130). Durkheim (1933) and Weber (1992) argued that economic systems could not be understood without a consideration of how cultural norms impact the system. Weber (1992) further made the case that the success of capitalism and growth in 17th century Europe was a result of the cultural values of Protestantism, notably the moral duty of hard work and the imperative to save. Contemporary scholarship has also specified gender egalitarian values

as facilitative of economic growth (Ghani et al., 2016), enabling more women to enter the labour force and thus enable a more efficient allocation of labour resources.

In assessing the implications of liberalisation to change individual attitudes, and potential implications for economic growth, I will analyse changes in India's cultural values following the 1991 reforms using data from the World Values Survey (WVS). The analysis will firstly assess attitudes to female employment. As societal values become more gender egalitarian, more women enter the labour force, in theory leading to the more efficient allocation of resources and economic growth. It will then assess attitudes towards work, with values focused on the merit of labour and hard work proven to positively affect productivity and economic growth (McCartney, 2015:25). Finally, it will assess changing attitudes towards saving, linked to economic growth as saving increases the pool of resources available for investment (McCartney, 2015:250).

3.2 Collection and dissemination of data

Data for this study was obtained from a range of secondary sources. With the aim of ensuring the validity of findings, I employed the triangulation of sources methodology to corroborate evidence across themes. For sections 4.1 and 4.2 of the analysis, I primarily obtained data from academic literature from 1991 onwards. To analyse the impact of reforms at the firm level, data on specific firms was acquired from academic case studies and the Financial Times archives. I then utilised the case study approach to examine the commonalties and intricacies of the resultant impacts (Yin, 2009). Quantitative data was acquired from a range of literature, employing data from various studies, including the National Sample Survey (NSS), and the Prowess database. The limitations of these databases and potential impacts on this study should be noted. The NSS provides large scale sample surveys in India, and therefore is useful to assess longitudinal changes, for example in female labour force participation rate (LFPR). However, due to noted changes in the methodology, questions and

sample size at various stages, this may negatively impact the consistency of results over time. The Prowess dataset is well suited to assessing how Indian firms change over time, as it provides data on a panel of firms (Alfaro and Chari, 2013). However, Goldberg et al. (2009) note that it only includes larger firms, for which entry and exit are not significant margins of adjustment, therefore this may constrain the findings for the impacts of liberalisation.

Data for section 4.3 of the analysis was obtained from the World Values Survey (WVS) website. Conducted since 1981, this global research project utilises a standardised questionnaire to explore people's values and how they change over time, assessing values concerning gender roles, work motivations and good governance, among others (WVS, 2017). By 1999-2004, it surveyed 67 countries with 96,000 respondents (WVS, 2017: 5). Results provide novel evidence, indicating the effect of people's beliefs at the micro level for societal changes at the macro level; including economic development and the emergence of democratic institutions (WVS, 2017). For example, Inglehart et al. (2004) have evidenced links between specific value dimensions and GNP per capita; with values of survival/self-expression linked to high income countries, and traditional/secular-rational values linked to low income countries. Similarly, in a study of 25 OECD countries, Fortin (2005) demonstrated the relationship between gender egalitarian attitudes and stronger female labour market outcomes.

WVS questions were selected based on their content and the waves in which they were used, with those in 1989/93, 1990/94, 1995/99, and 2000/04 favoured as they cover the period following 1991 reforms until the 2003 economic boom. For this paper, the WVS provided a useful source of longitudinal data to assess changes in attitudes and values in India. However, there are two key drawbacks pertinent to this study. As the surveys are conducted orally, the respondent may be hesitant to answer truthfully particularly in culturally sensitive areas. In addition, the translation and meaning of words may vary leading to misinterpretation (Weniger, 2012).

4. Analysis

This section will investigate the extent to which 1991 liberalisation reforms in India enacted change at the micro-level of the economy, and evaluate the contribution of these changes to the lagged growth effect. This section is ordered as follows:

4.1 Corporates change the way they do business

4.2 Factors of Production become more mobile

4.3 Individual attitudes change

4.1 Corporates change the way they do business

Prior to reforms, the functioning of business in India was largely dictated by the state, with industry expansion limited under the MRTP, sectors under public control, minimal foreign engagement and industrial licensing. The 1991 reforms instigated two substantial changes to the corporate environment: liberalisation of industrial licensing meant that new domestic players could emerge in previously controlled sectors; and the reduction of import tariffs and barriers to entry for foreign companies eased the introduction of new firms, products and services to the market (Kumar et al., 2009:36). To remain viable, firms had to adapt to this novel environment, initiating a decade of restructuring, with profound consequences for the operations, strategy, organisation and management of firms (Khandwalla, 2002).

Figure 2 displays Khandwalla's (2002:427) model of a successful corporate response to liberalisation. The following analysis will assess Indian companies against three of these elements: organisational redesign (improving firm competitiveness); global growth opportunities (improving profitability) and professional and employee oriented modes of management (strengthening corporate expertise).

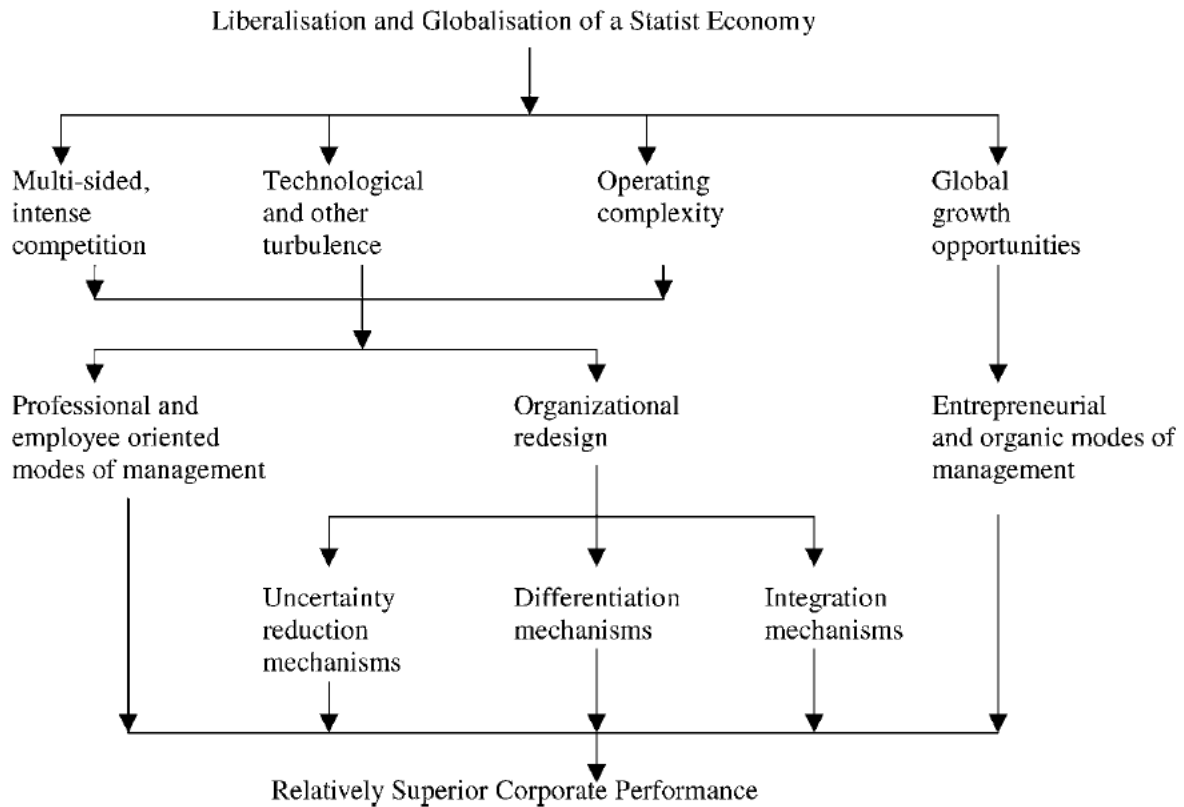


Figure 2: Economic liberalisation and effective corporate response (Khandwalla, 2002: 427)

4.1.1 Improving firm competitiveness

The onset of liberalisation reforms in 1991 led Indian corporations to increasingly shift their behaviour from government seeking to market seeking, due to changing structural incentives in the economy. This section discusses the strategies firms adopted including restructuring, increasing productivity, controlling costs, and becoming more innovative.

As discussed in section 3.1.1, transaction cost economics can be employed as a theoretical framework to explain the changing structure of Indian firms in response to liberalisation. This predicts that moving towards a market economy will narrow the boundaries of a firm and lead to greater consolidation, away from the dominant widely diversified, vertically integrated structures of Indian corporates (Aggarwal, 2003). Following liberalisation, external markets become more efficient and transaction costs decline.

Furthermore, many advantages of the diversified corporate structure declined; firms suffered from bounded rationality in managing diverse operations, and sheltering of weak operations, and it inhibited benefits of the economies of scale in production (ibid.).

Dynamic changes were evidenced across Indian business houses. Business literature from the time focused on the substantial restructuring of conglomerates. Guha (1998c:34) in the Financial Times noted that ‘focus is the new buzzword’, citing examples of the restructuring of the Birla and Tata groups; converting companies from a loose collection of holdings to corporate groups with strict lines of accountability. For example, the Aditya Birla companies undertook a portfolio analysis of each business to quantify value creation for shareholders, with non-performers being either restructured or sold. Similarly, the Tata group undertook a programme to consolidate its management and improve accountability. In 1991, the ownership structure within the group shifted to increase Tata Son’s share of each group company to 26% (Witzel, 2010:62), facilitating more centralised management and accountability. Many firms also restructured their operations to hone in on industries in which they dominated. For example, in the steel industry, groups integrated their upstream and downstream operations, with the Mittal and Essar groups expanding steel production, and manufacturing the raw materials for it, thus upgrading products to create a competitive edge in a market that was previously nationalised (D’Costa, 2000). Similarly, in the aluminium sector, the National Aluminium Company expanded its smelting capacity from 230k tonnes to 345k tonnes in 1996 (Bose, 1996:21).

Another factor utilised to enhance a firm’s relative standing was to increase productivity, initiated by cheaper factor services and greater competition from liberalisation (Kotwal et al., 2011). In the manufacturing sector, Topalova and Khandelwal (2011) found that a 10% fall in tariffs from reforms led to a 0.5% increase in TFP for the average firm. At a firm level, this productivity increase is

evidenced at Mahindra and Mahindra where in 1991, it took 1,230 workers to manufacture 70 engines a day, whilst by 1994 it only took 760 workers to manufacture 125 engines a day (Kumar et al., 2009:39).

Many firms have also sought to improve cost efficiency. Tata Steel is a prominent example. At the onset of liberalisation, the company was protected by high tariffs and limited competition, resulting in outdated processes and high unit costs of production (Kumar et al., 2009). Since then, it has embarked on a modernisation process to improve its cost efficiency, investing \$2.5bn in capital upgrades and reducing employees in Bihar from 78,000 to 38,000 (Kumar et al., 2009:170). By 2003, Tata Steel emerged as the world's lowest cost steel producer, with the company's return on invested capital increasing from 5.6% in 2000-01 to 36.5% in 2004-2005 (Anand and Singh, 2006:140).

A notable strategy post reforms has been to improve a firm's level of innovation. Goldberg et al.'s (2013) study assessed shifting product innovation in manufacturing firms and its contribution to industry growth. Following the removal of high tariffs in the reforms, it was found that manufacturing firms expanded the volume and variety of their imported inputs, increasing their import to GDP ratio from 7.6 in 1990 to 11.6 in 2000 (ibid.:170). Furthermore, they estimated that new products accounted for 35% of the increase in output growth of manufacturing.

4.1.2 Pursuing growth

As firms sought to become more competitive routes for growth, including mergers and acquisitions (M&A) and foreign partnerships increased. These were facilitated by the removal of restrictive provisions of the MRTP in 1991 relating to licensing for enterprise expansion, amalgamations and takeovers of enterprises, and acquisition of foreign technology and investment (Beena, 2014:12).

Drawing on the theory of transaction cost economics discussed in section 3.1.1, Aggarwal (2003) states that a move towards a market economy leads to the use of M&A and divestments as a tool for corporate restructuring. During the 1990s there was substantial growth in corporate M&A in India, evidenced in Figure 3 (Beena, 2014). The number of M&A deals increased from 268 in 1980-90 to 1034 in 1990-00. In addition, Merchant (2001:12) found that the number of deals in 2000, 802, was double that in 1999.

Year	Non-Manufacturing	Manufacturing	Total
1990-95	116	175	291 (20)
1995-00	233	510	743 (236)
1990-00	349	685	1034 (256)

Figure 3: M&A deals 1990-2000. Figures in brackets represent the number of MNE related deals. (Beena, 2014: 11)

M&A is commonly employed by a firm as a strategy for growth; to expand its capacity, enhance its efficiency, or consolidate its business focus (Beena, 2014). Such strategies are evident in the M&A activity in India. Many firms undertook deals to develop areas of core competency. For example, India Cement's takeover of Raasi Cement in 1998 strengthened its focus, and was driven by the logic that it was cheaper to buy than to build, with it costing Rs10bn to build new plants with the capacity of Raasi Cement, for which it paid Rs4bn (Guha, 1998b:34). In addition, to facilitate its ambitions to become a global corporate leader, from the mid 1990s to 2003, Tata acquired one company a year on average, with this figure increasing in the 2000s, with 5 acquired in 2004 (Kumar et al., 2009:162).

Another growth strategy has been joint ventures with foreign firms. This is particularly notable in the automobile industry, with Maruti Udoyog Ltd (MUL) established in 1982 as a joint venture between the Government of India and Suzuki Motors. By the late 1990s, MUL had achieved remarkable growth in production, with 53 cars produced per employee per year, compared to 5 for Hindustan Motors (Okada, 2009: 93). Part of the reason for its success was the sharing of technological expertise. This included

the adoption of subcontracting, internalising external market linkages with suppliers, overcoming supply bottlenecks, and increasing productivity without cost escalation (D'Costa, 2000:152).

4.1.3 Strengthening corporate expertise

Following reforms, Aggarwal (2003) notes a discernible shift towards valuing professional and technical expertise within corporates. For many firms, this trend has been strengthened by the listing companies on the stock market, meaning that corporate standards are subject to greater scrutiny.

The increasing value placed on professional management was notable in many Indian firms, where positions were previously taken by family members (Kumar et al., 2009). Limited appreciation of managerial competitive advantage was reflected in salaries, with top executives in the 1980s earning as little as \$5,000 per year (Kumar et al., 2009:40). From the 1990s salaries have moved in line with global trends. A pertinent example of increased managerial value is at ArcelorMittal, a global steel conglomerate. In 1995, Mittal acquired Ispat Karmet steel works in Kazakhstan and brought in skilled managers from India. These were predominantly poached from the state-owned Steel Authority of India Limited (SAIL), offering them attractive salaries in return for outstanding performance. This proved to be a successful strategy, as SAIL managers were highly skilled and experienced (Kumar et al., 2009:65). The increased corporate desire for managerial expertise and leadership is further evidenced by the use of consulting services, with Srivastava and Srivastava (2012) noting that India has been one of the fastest growing management consulting markets since 2000.

Increasingly, firms sought to create a competitive advantage through the employment of technical expertise. Kumar et al. (2009) discusses the expansion of the technical workforce at Bharat Forge as fundamental to the firm's substantial growth. In the early 1990s, the firm's chairman Baba Kalyani acquired automated press lines for manufacturing forgings, and hired white collar employees with

science degrees to operate them. The firm shifted from an 85% blue collar workforce in 1989 to an 85% white collar in 2000 (ibid.:87). This technical shift resulted in increased quality and speed, and reduced costs. These results facilitated Bharat Forge's trajectory to become a global leader in the market.

4.2 Factors of production become more mobile

Factors of production (labour, land, entrepreneur and capital) are the inputs used to produce goods and services in an economy. As discussed in section 3.1.2, for increases in GDP growth and productivity to be maximised, these factors need to become increasingly mobile (Onyemelukwe, 2016). This section will evaluate changes in the mobility of FP (land, labour, capital and enterprise) following liberalisation reforms in 1991.

4.2.1 Labour

Neoclassical economic theory states that a freely functioning and efficient labour market employs people based on skills and productivity, not on discrimination characteristics. Becker's (1957) model of taste based employer discrimination further predicts that as an economy becomes more market oriented and competitive, such as the case of post-1991 India, employer discrimination declines as rents that were previously used to 'pay' for discriminatory behaviour are reduced, for example lowering trade protection. Therefore, it was anticipated that following liberalisation in India discrimination in the labour market, notably towards lower castes (Scheduled Castes, SCs and Scheduled Tribes, STs) and females would decline. Whilst there are many measures of discrimination, this paper will utilise LFPR.

Studies assessing changes in levels of caste based discrimination in the labour market show a negligible shift. Papola (2012:14) examines growth rates of employment for different caste groups in the periods 1983-1993/94, and 1993/94-2009/10, displayed in Figure 4. He found that all groups had similar rates of employment growth over the two periods, apart from a higher rate of growth for SCs between 1983 and 1993/94. He concluded that SCs experienced gains in employment, however STs performed below average, thus there have been marginal declines to caste based discrimination in the labour force.

Social Group	Growth of Employment (% per annum)	
	1983/1993-94 (R)	1993-94/2009-10 (R)
SCs	2.7 (1.0)	1.7 (3.6)
STs	1.8 (-0.4)	0.9 (1.9)
Others	1.9 (2.6)	1.1 (1.5)

Figure 4: Growth of employment in % per annum for different social groups. Figures in brackets are for regular workers (Papola, 2012:14; NSSO 1983; 1993; 2009)

Studies assessing changes in gender based discrimination in the labour market also show a negligible change. Bhalla and Kaur (2011:7) assess changes in female LFPR between 1983 and 2004/5, as displayed in Figure 5. They found limited change since 1983, with the overall female LFPR remaining constant at around 40%, and evidencing a decline in 1999/00 and 2004/05; rural women's LFPR around 45%, and urban women's LFPR around 23%. They state the divide between urban and rural women is due to a higher incidence of poverty in rural areas, leading to the necessity of female employment.

	1983	1993/94	1999/00	2004/05
All India	68.3	71.2	62.8	62.5
Females	40	46.5	38.9	38.6
Males	90.5	90.2	85.6	85.5
Rural India	70.5	75.5	66.3	65.9
Females	45.1	53.1	45.2	44.7
Males	91.1	92	87	86.9
Urban India	61.8	54.3	54.2	55
Females	23	23	22.5	24.3
Males	88.6	82.4	82.4	82.7

Figure 5: Percentage of the population in the labour force, ages 15-59 (Bhalla and Kaur, 2011:7)

These figures pose the query as to why liberalisation has failed to instigate higher LFPR for women in India, as it has in many other developing countries. Ghani et al. (2013) suggest factors including cultural norms, and the skew of growth in the manufacturing technology and capital intensive production, aligned to male employment. This query exemplifies the need for a gendered analysis of economic activity, examining how supposedly objective economic laws of market competition ‘work through and within gendered structures’ in society (Humphrey, 1985:219) adding complexity to implementation.

4.2.2 Land

To derive the maximum economic growth from liberalisation, it is conceived that land markets must become more mobile. This is rooted in North’s (1990:3) argument that strong institutions, inclusive of property rights, are a fundamental source of economic growth as they determine incentives and constraints on economic actors. Acemoglu et al. (2005) further asserts the importance of property rights to enabling capital accumulation, stating that they facilitate incentives for individuals to invest in physical or human capital. Despite the expectation outlined by Subramanian (2007) that economic growth leads to improved institutional quality, in India the reality contradicts this expectation.

Following liberalisation reforms in 1991, Ghatak and Ghosh (2011:65) note there was ‘a voracious appetite for space’ to meet the demands of industrialisation, resource extraction and urban expansion. Levien (2015:3) notes the shift in land acquisition; from a regime that dispossessed land to produce commodities, to one that dispossessed land for private investment, and thus commodified land.

However, distinct barriers to the smooth transaction of land remained prevalent. These include the prevalence of fragmented and marginal landholdings; in 1995-96 43% of agricultural land in West Bengal was in 1 hectare or less landholdings (Dasgupta, 2005:20), and ‘unclear’ land titles; estimated at 90% of titles (McKinsey, 2001:19). Due to the growing demand and complexity of transactions, state governments increasingly played the role of land brokers (D’Costa and Chakraborty, 2017). This was

further incited by incentives to compete against other states for investment (Jenkins, 1999), and to generate substantial rents (Levien, 2015). To acquire land from multiple landholders, states have employed the ‘public purpose’ component of the Land Acquisition Act of 1894 (Sud, 2014). A notable ‘pro-business’ state, Gujarat has increased its land acquisition for industry from 2891 hectares in 1947-60, to 136,596 hectares in 1981-2004 (Lobo and Kumar et al., 2009: 54-55).

Despite the state’s role as ‘broker’ businesses have faced significant problems in the acquisition and proposed use of land. For example, in 1995 the Tata Iron and Steel Company (TISCO) was granted permission to set up a steel plant, involving the acquisition of 7,000 acres (PUDR, 1997). Following this, TISCO faced problems including indigenous protests, and the acquisition of infrastructure including water and rail links; resulting in the abandonment of the project in 2000 (PUDR, 1997). Similarly, a proposed steel plant in the Kalinganagar industrial complex, with land acquisition commencing in 1992-94 resulted in large scale protests and police firing in 2006 (PUCL, 2006). These examples exemplify the widespread difficulties a corporation undergoes to acquire land for business.

Whilst trade liberalisation has reduced barriers to trade participation, Duranton et al. (2015) asserts that land markets remain highly distorted. As a result, these distortions have been cited as one of the largest constraints on economic growth accounting for close to 1.3% of lost GDP growth per annum (McKinsey, 2001:4). The continued difficulties in this area are evidenced in the Ease of Doing Business reports, with land regulations hindering the ability to do business. In 2015 India stood at 142 out of 189 countries, close to the bottom in two categories, ‘Dealing with Construction Permits’ and ‘Enforcing Contracts’, both fundamental to the mobility of land (World Bank, 2014:4).

4.2.4 Capital

Capital as a FP consists of the tools and machinery used to produce a good or service. This section focuses on the mobility of financial capital, fundamental to the growth of a business. It is anticipated that following liberalisation, constraints on the supply of funds for investment are eased.

It is noted that in India many businesses, particularly in the SME (Small and Medium Enterprise) sector have difficulty acquiring finance through the traditional route of banks. Covering the period 1995-2004, Ghosh (2006) examined whether financial liberalisation led to an easing in sourcing external finance for manufacturing firms. He finds that following liberalisation the cash flow variable became less important for the firm's investments, implying that financial liberalisation improved access of small firms to external finance.

Evaluating the proposed investment projects of industrial firms throughout the 1990s also demonstrates increasing financial capital mobility within firms. The number of industrial investment intentions filed through the industrial entrepreneurs' memorandum increased from 3084 in 1991 to 6502 in 1995, and decreased to 2948 in 1999. However, proposed investment consecutively increased from Rs763.10bn in 1991 to Rs1288.92bn in 1999 (Government of India, 2001).

Building on from the importance of the availability of financial capital to the growth of firms, it is noted that venture capital evidences the maturity of the capital market and the incentive to mobilise the entrepreneur. Figure 6 displays the amount of capital under management by the venture capital industry in India (Dossani and Kenney, 2002:244). It shows a substantial increase, particularly after 1995. Furthermore, it indicates that the source of this increase was the entrance of foreign institutional investors. Dossani and Kenney (2002) trace the development of India's venture capital industry to the booming IT sector, entry of private venture capitalists particularly from the US, and the influence of

non-resident Indians in directing attention to the potential of entrepreneurs in India. This growth of the venture capital industry is fundamental to the mobility of the entrepreneur, providing funds to bring its ideas into fruition.

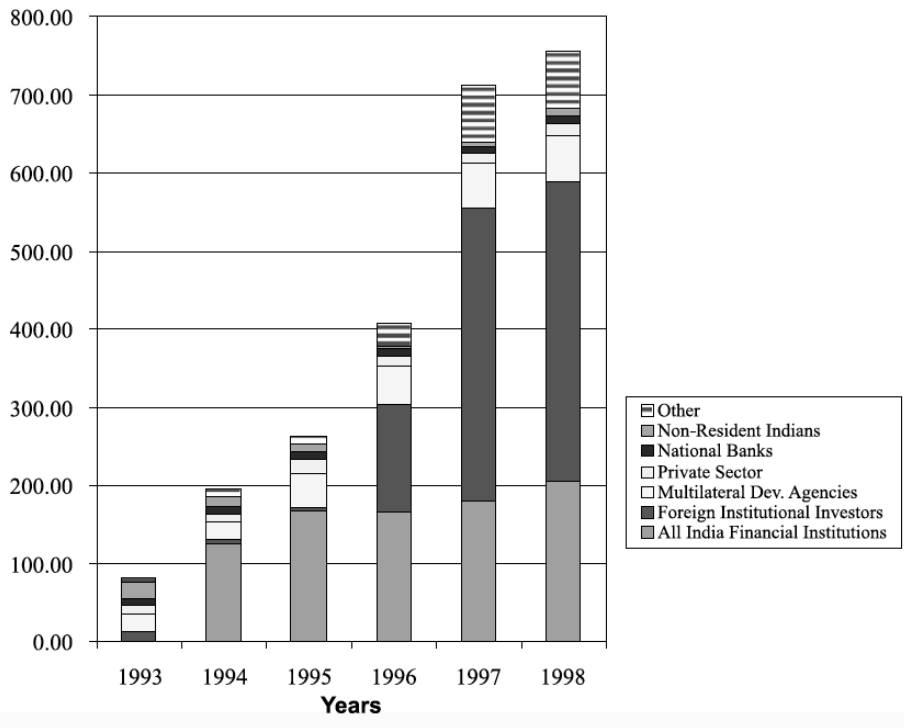


Figure 6: Capital under management by the Indian venture capital industry in US\$ millions (Dossani and Kenney, 2002:244)

4.2.4 Entrepreneur

The ‘entrepreneur’ factor is the individual who attempts to make an economic profit from an idea by combining it with all other FP, taking on the risks and rewards. Liberalisation provides enhanced incentives for individual gains, therefore it is anticipated that entrepreneurial activity will rise.

At an aggregate level, increased mobilisation of entrepreneurs is expected to increase firm entry, and competition between firms. Alfaro and Chari (2010) examined the impact of India’s liberalisation reforms on competition between firms. From 1989 to 2005 they found that the entry of new private firms across sectors increased from 3,031 in 1988-90 to 8,864 by 2005. Whilst their findings can be

assumed to indicate increased mobility of the entrepreneur, it should be noted that firm entry is a reasonable, but not perfect proxy for entrepreneurial activity, as new firms may be owned by existing corporations.

Once new entrants enter the liberalised market, it is predicted that they will have substantial opportunities to grow and dominate. Sarkar (2012:304-305) assessed this prediction analysing changes in the list of top Indian firms over time, at 10 year intervals: 1969, 1980, 1990, 2000, 2006. She found there to be an increase in 'corporate churning' after 1990. In the period 1990-2000, there was a significant turnover of rankings among the top twenty, with only nine remaining in the list while eleven new groups entered. Guha (1998a:V) evidences this corporate churning with the comparison of traditional company Century Textiles, controlled by Birla, and Wipro, a software company. In 1994, Century Textiles was the 12th biggest private business, but by 1998 it posted losses of Rs867m. Comparably Wipro didn't rank in the top 1000 companies in 1994, yet in 1998 it ranked 4th, with profits of Rs857m. This evidences Schumpeter's (1942) theory of creative destruction, as more efficient firms enter, those that are more inefficient or in lagged industries decline.

Another factor indicative of increasing mobilisation of the entrepreneur is the number of billionaires in India. As the entrepreneur takes on the rewards of entrepreneur activity, liberalisation enables them to acquire significant financial gains. In the mid 1990s, there were only two billionaires with a combined wealth of \$3.2 billion. However, by 2012, there were 46 with a net worth of \$176.3bn (Biswas, 2012). In addition, a large proportion of these are self-made billionaires suggestive of entrepreneurial mobility, as displayed in Figure 7 (Ahmadoff and Company, 2017:4).

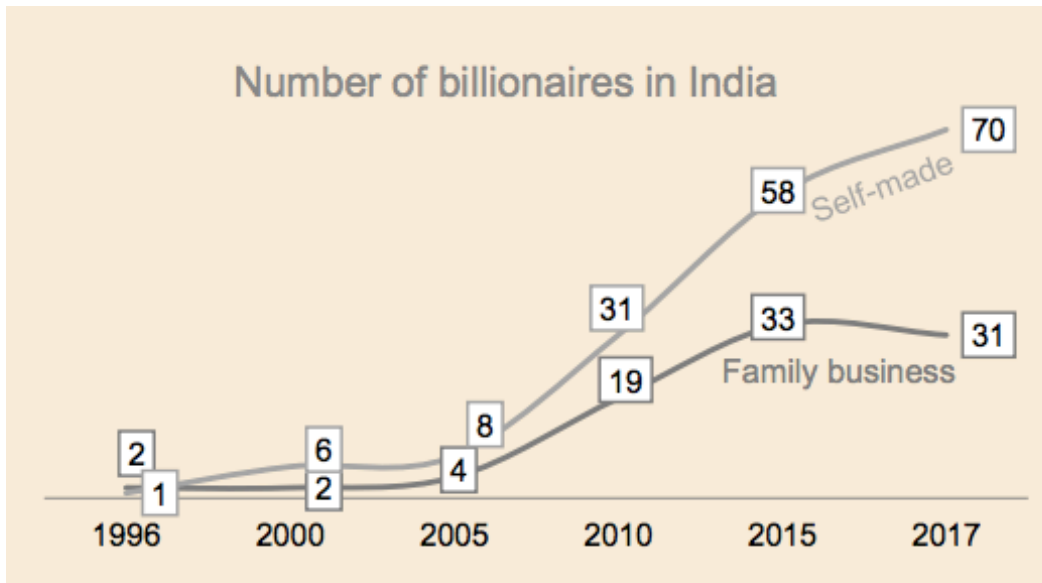


Figure 7: Number of billionaires in India (Ahmadoff and Company, 2017:4)

4.3 Individual attitudes change

Increasingly links between culture and economic performance have been emphasised by scholars (Inglehart, 1997). As discussed in section 3.1.3, this section will evaluate changes in individual attitudes following 1991 liberalisation reforms in India across three areas; attitudes to female employment, attitudes to work, and attitudes to saving. These value areas were selected as each has been evidenced by previous scholars to link to increased economic growth and productivity at the aggregate level. Using WVS data, changes in cultural values will be assessed from the early 1990s to the early 2000s.

4.3.1 Attitudes to female employment

As discussed in section 3.1.3, gender egalitarian values, and a positive attitude towards women in employment have been linked to economic growth at the macro level (Ghani et al., 2016). The WVS features several questions that are indicative of societal gender attitudes and female employment. For the questions assessed here, respondents were asked the extent to which they agreed with a statement. The following questions were analysed: ‘When jobs are scarce, men should have more of a right to a job than women’ (Figure 8), ‘Both the husband and wife should contribute to household income’ (Figure 9), and ‘Being a housewife is just as fulfilling as working for pay’ (Figure 10).

Perhaps surprisingly, responses evidence a decline in gender egalitarian values. In the instance of both the husband and wife contributing to household income, there is a decline in those who ‘agree’ from 48% in 1989-93 to 41% in 1999-2004. In addition, those who ‘strongly agree’ only increases from 32% in 1989-93 to 36% in 1999-2004. The question of whether being a housewife is considered as fulfilling as working for pay received a consecutive increase in those who ‘agree strongly’, from 11% in 1989-93 to 22% in 1999-2004. Those who ‘disagree’ or ‘strongly disagree’ declined significantly over the waves. In the statement regarding men having more right to a job than women when jobs are scarce, those who ‘agree’ increased from 48% in 1989-93 to 51% in 1999-2004 and those who ‘disagree’

declined from 45% to 28% over the same period. These apparently contradictory findings exemplify the need for a micro level gendered analysis of the impacts of liberalisation, to determine why expectations of the market reducing discrimination and enhancing gender egalitarian values is not evidenced. Furthermore, it demonstrates the need for policy to specifically target these attitudes, and resultant labour force discrimination.

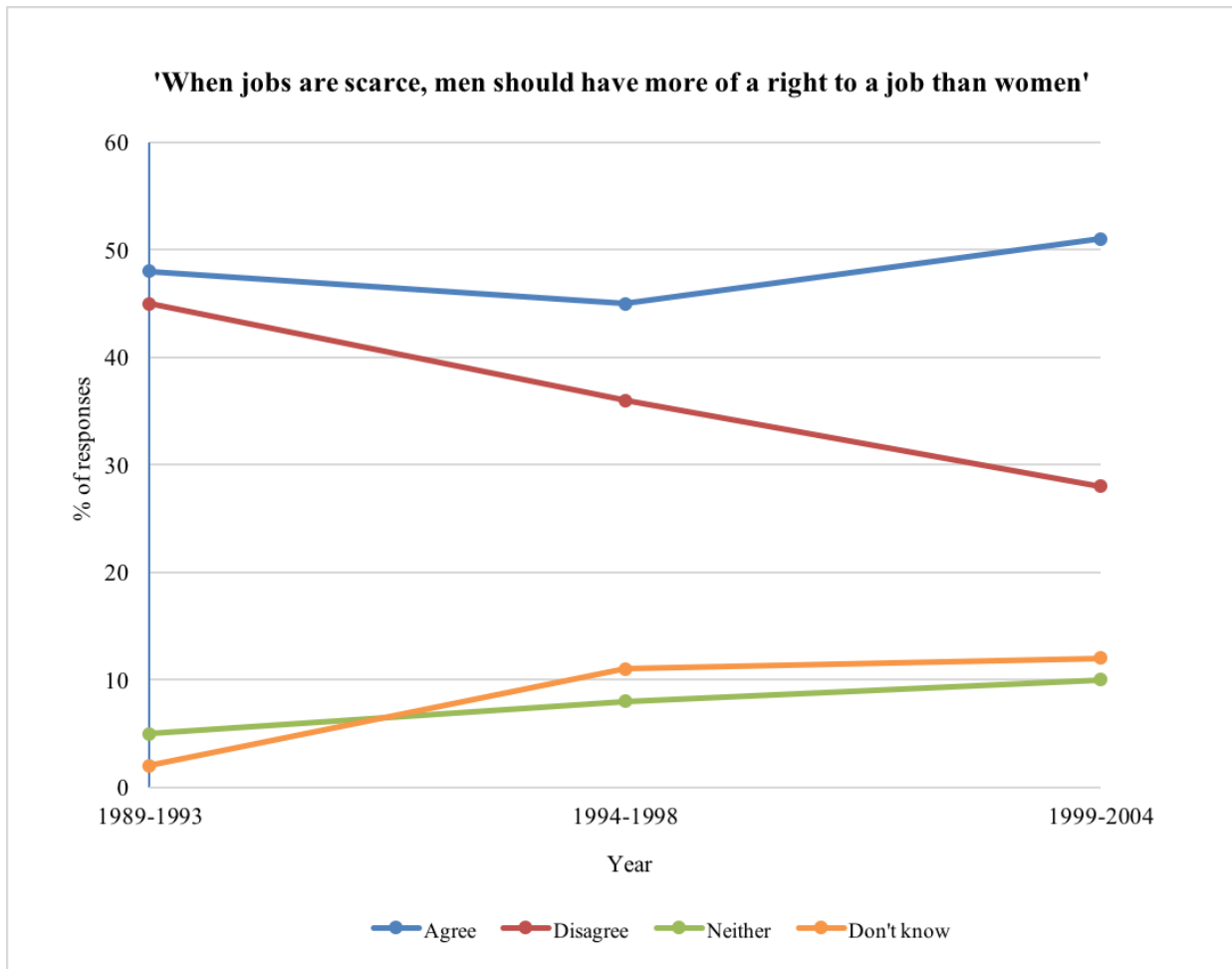


Figure 8 (WVS, 1990;1995;2001)

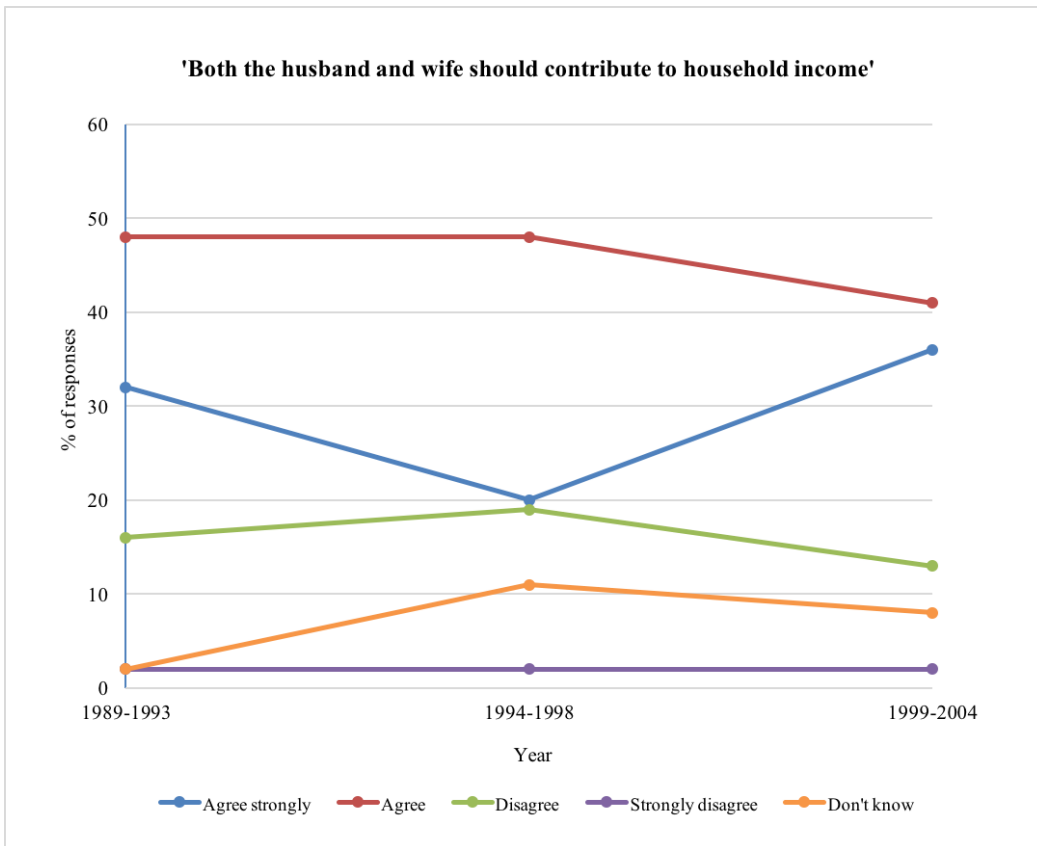


Figure 9 (WVS, 1990;1995;2001)

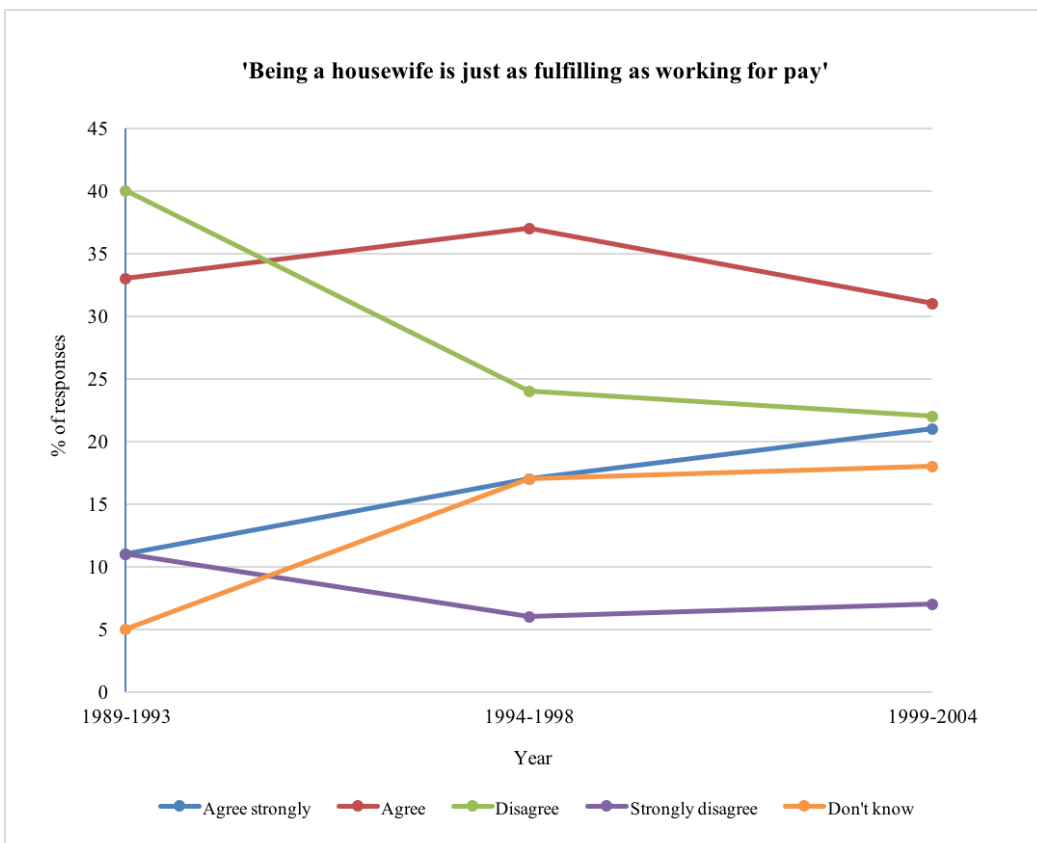


Figure 10 (WVS, 1990;1995;2001)

4.3.2 Attitudes to work

As discussed in section 3.1.3, attitudes to work can be linked to growth, with the dignity of labour and hard work affecting labour productivity and TFP, and thus economic growth (McCartney, 2015:250). The following WVS questions were analysed, implicating attitudes towards work: ‘Important in life: work’ (Figure 11), ‘Important in a job: that you can achieve something’ (Figure 12), and ‘Important child qualities: hard work’ (Figure 13). Response type varied, with some asking respondents the extent to which a factor was important, and others assessing whether a respondent ‘mentioned’ a factor or not.

Responses were indicative of the value of hard work becoming an increasingly prominent factor in people’s lives. Work as a ‘very important’ factor in people’s lives declined from 86% in 1989-93 to 76% in 1999-04. As a ‘rather important’ factor however, it increased from 12-18% over the same period. The proportion of respondents who ‘mentioned’ hard work as an important quality in children increased from 67% in 1989-93 to 85% in 1999-04. Furthermore, the proportion of respondents who ‘mentioned’ the opportunity to achieve something in your job as important increased from 61% in 1989-1993 to 69% in 1999-04. These findings evidence a shift towards survival, self-interest values, noted by Inglehart et al. (2004) as prevalent in high income countries. The shifting predominance of work and individual gain as important values in society can be partially attributed to liberalisation, and the changing structure of incentives for firms and individuals, leading to the importance of market seeking behaviour to maximise individual gains.

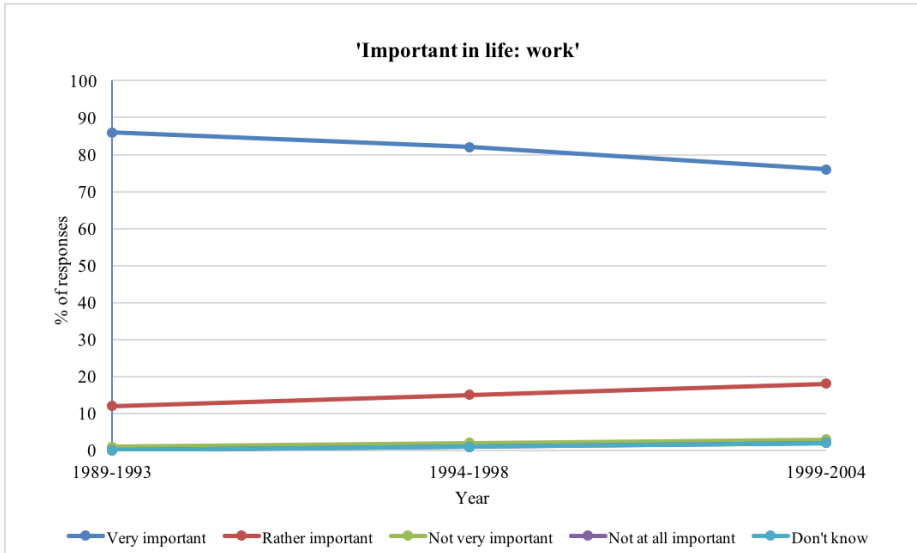


Figure 11 (WVS, 1990;1995;2001)

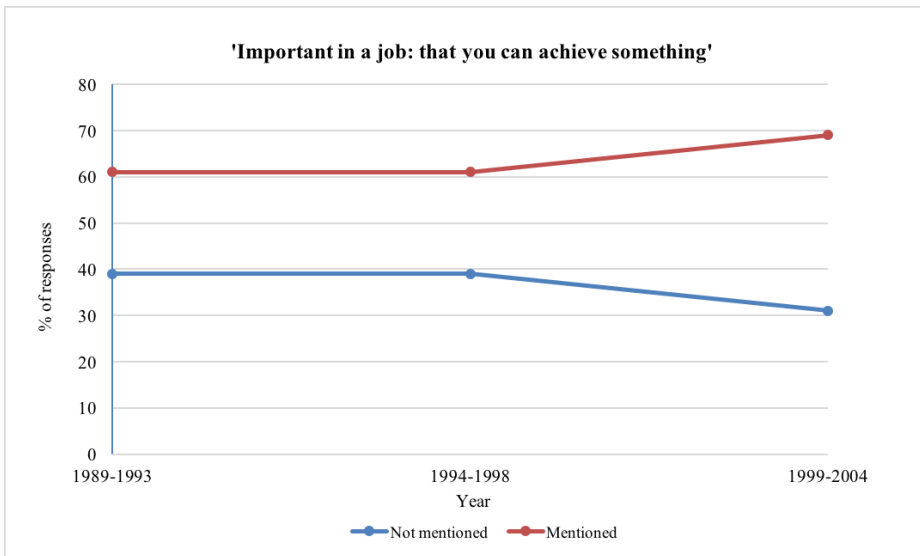


Figure 12 (WVS, 1990;1995;2001)

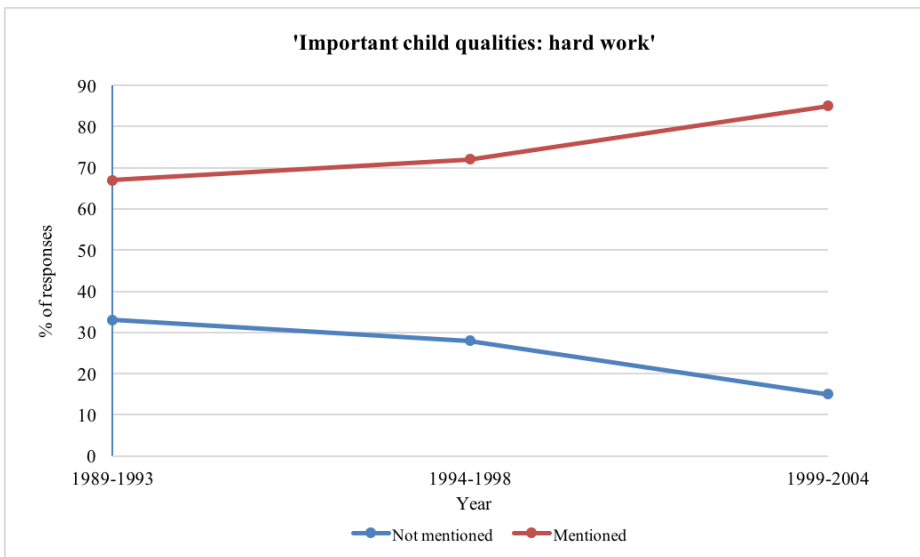


Figure 13 (WVS, 1990;1995;2001)

4.3.3 Attitudes to saving

Attitudes to saving can be linked to economic growth due to the tendency to save increasing the pool of resources available for investment (McCartney, 2015:250). One question in the WVS that is indicative of attitudes to saving is ‘Important child qualities: thrift saving money and things’, displayed in Figure 14. Over the three time periods, thrift mentioned as an ‘important’ quality increases from 24% in 1989-93 to 62% in 1999-04. This distinct increase in thrift as an important value could be presumed indicative of higher saving among individuals, potentially facilitating future growth. However, it can also be considered an individual response to the increasing prevalence of the market, and declining supportive role of the state. Furthermore, as discussed in section 3.1.2, the process of creative destruction leads to areas of ‘destruction’, thus potential unemployment may increasingly incite the importance of individuals to save.

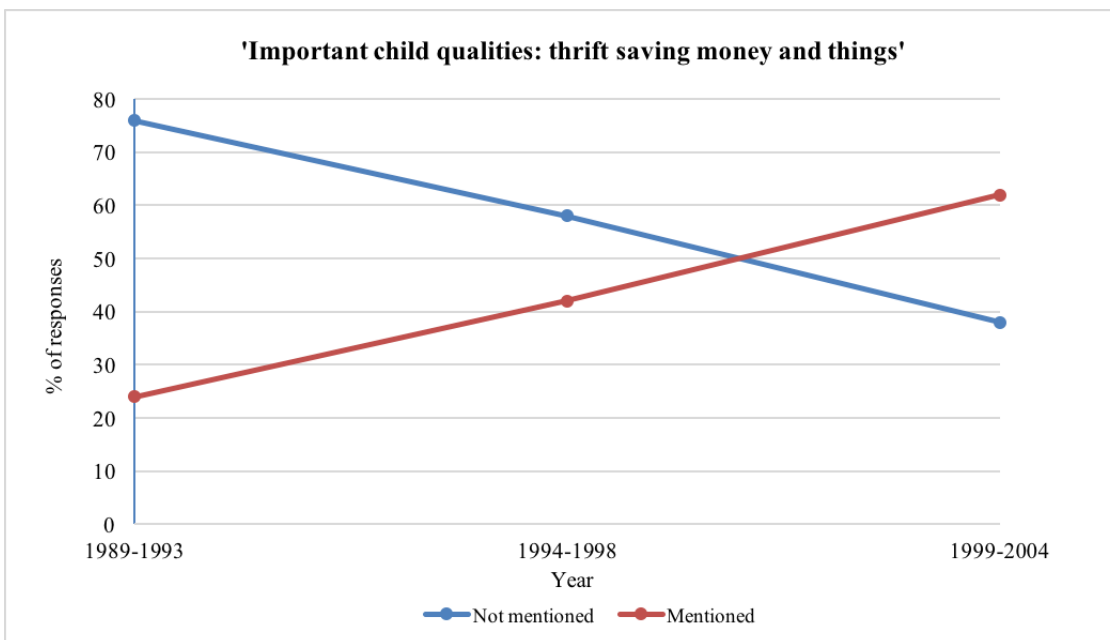


Figure 14 (WVS, 1990;1995;2001)

5. Conclusions

This section will firstly outline the key findings of this paper, before responding to the initial inquiry of the extent to which 1991 liberalisation reforms facilitated the growth boom in 2003. It will then discuss limitations of the study and suggestions for further research.

Section 4.1 assessed changes in how corporates do business. Transaction cost economics predicts a move towards a market economy will narrow the boundaries of a firm and lead to greater consolidation (Aggarwal, 2003). Findings in section 4.1.1 align to this expectation, with corporate houses including Birla and Tata restructuring to enhance consolidation of management and production. Corporates were also found to increasingly shift to market seeking behaviour, enhancing productivity, innovation, and cost efficiency; intending to improve their competitive standing. Thus, there is extensive evidence that liberalisation reforms instigated changes in the functioning, management and strategy of corporates.

The increasing mobility of FP (land, labour, capital, entrepreneur) was assessed in section 4.2. As Onyemelukwe (2016) attests, to ensure maximum growth FP must be increasingly mobile. Findings provided conflicting results. Capital and entrepreneur both demonstrated enhanced mobility, with a growing venture capital industry, and greater corporate churning among the top twenty businesses in India after 1991. However, land and labour proved contradictory to predictions. Labour discrimination along the lines of caste and gender failed to evidence a significant decline, with female LFPR paradoxically declining in 1999/00 and 2004/05 (Bhalla and Kaur, 2011:7). Furthermore, the mobility of land became increasingly constrained, with businesses facing substantial difficulties in its successful acquisition through the market. It is evident that limitations in the mobility of labour and land hinders economic growth, for example, McKinsey (2001:4) states that land market distortions account for close to 1.3% of lost GDP growth per annum.

Shifting individual attitudes were assessed in section 4.3. It was found that the value of hard work and thrift increased in the 1990s, and achievement became an increasingly important value. This can be determined as evidence of shifting normative values more inclined to economic growth. However, attitudes towards women in work were found to regress. This opposes successful examples of economic growth, such as contemporary Bangladesh and Sri Lanka, in which an increasing shift towards female employment outside the household has been instrumental to their growth stories. This may be conceived as an explanatory factor for stagnant female LFPR evidenced in section 4.2.1.

I will now address the initial inquiry, looking at the extent to which changes in the Indian economy induced by liberalisation reforms in 1991 facilitated the growth boom in 2003. In doing so, it is useful to firstly outline the boom's proximate causes, before assessing how micro level changes identified in section 4 contributed to this growth. Nagaraj (2008:55) attributes the boom to three factors: an industrial recovery, a sustained growth in service, and increasing exports during a boom in world trade.

The industrial recovery, led by capital goods, is evidenced in the manufacturing growth rates of 8.8% between 2002-03 and 2006-07, comparable to 5.6% in the previous 5 years (Nagaraj, 2008:56). Over this period, Nagaraj (2008) states that private corporate profitability also improved. Linking this to the findings in this paper, it can be conceived that the industrial pick up was determined by a decade of restructuring and alterations among Indian firms to improve their competitiveness. Evidenced in section 4.1, improvements to cost efficiency, innovation and increasing rates of M&A, will all have contributed to the proceeding competitive strength of the sector when faced with the benign global environment in 2003 (Nagaraj, 2013). In addition, increasing mobility of entrepreneurs, evidenced in section 4.2.3 will have further initiated this recovery with innovation leading to output growth.

The sustained growth in services has been led by increases in communications and business services, both witnessing an upsurge in growth in the 2000s; with the growth rate of telephone services increasing from 8% in 1992-93, to 18.8% in 2006-07, and business services from 13% in 1992-93 to 23.3% in 2006-07 (Nagaraj, 2008:56). Specific findings in section 4 contribute to an explanation. The increasing mobility of entrepreneur and capital facilitated the initiation and growth of IT firms such as Infosys. These sought to focus on their comparative advantage, mobilising low-cost engineering skills to produce software services for export which aligned to the communications ‘revolution’ at the time, in which the US liberalised rules for outsourcing (Nagaraj, 2008). Shifts in individual attitudes valuing hard work and innovation, evidenced in section 4.3.2, will have contributed to this phenomenal growth.

Findings in this paper hold noteworthy implications for the debate on India’s growth trajectory. It evidences substantial changes initiated by the reforms at the micro level of the economy; across corporates, FP, and individuals. It then demonstrates the ways in which these changes have contributed to the lagged effect of growth, manifest in 2003. Whilst this paper argues that the 1991 reforms led to a lagged effect of growth, thus disputing the argument that liberalisation did not lead to growth, it also contends that the market has its limits in initiating the changes needed to ensue growth and productivity, and thus tailored analysis and policy must be utilised. For example, the negligible change in attitudes towards women in work and female LFPR evidence that initiating a market economy is not enough to redirect labour inputs to their most efficient and productive use. Going forward, it is crucial to apply a gendered frame to the analysis of economic activity, and develop policy accordingly to counteract these gender market distortions, such as reforming women’s rights to property (Palmer, 2001). Furthermore, in seeking to address land market distortions and further facilitate growth, policies should be directly targeted to enhance its mobility; inclusive of improving transparency of transfer, clarifying ownership, and consolidating landholdings (McKinsey, 2001).

This study evidences the necessity of going beyond an aggregate analysis of the economy to provide an understanding of whether liberalisation leads to economic growth, and if so through what channels. In doing so, this paper contributes to wider debates about liberalisation and growth. For example, after 2008 dominant ideas were that excessive liberalisation and under-regulation of financial markets led to the global economic crash and subsequent recession, which would similarly benefit from a micro level analysis.

5.1 Limitations

One limitation of this study is that it has taken the assumption of a one-way process between the initiation of liberalisation and changes in the three factors outlined in section 3.1. In reality this relationship is more complex, with these factors being both a cause and effect of growth and freer markets. For example, regarding individual attitudes, it can be noted that Weber (1992) argued that the culture of Protestantism provided an ideal environment for capitalism to flourish, whereas in this study I have assessed whether liberalisation has induced changes to cultural values that have later facilitated economic growth. Thus, a further research agenda could be to explore the complex relationship between liberalisation and these factors in greater depth. Another limitation of this study is that I do not quantify how much each delineated change instigated by liberalisation at the micro-level contributed to growth in 2003. Thus, a potential area of further research would be to quantify the contribution of each factor to facilitating 2003 growth, inclusive of those highlighted in this paper, and others such as the boom in world trade; and assess the comparable contributions to the resultant boom.

Word count: 9,997

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