If the NEER value is increasing(index number) it indicates that the domestic currency is becoming costly or appreciating i.e. that means more of these basket of currency have to be sold out to buy Indian rupees.

Economics Class 46

NEER, REER, CONVERTIBILITY OF RUPEE (09:06 AM)

- **Nominal Effective Exchange Rate**
- It is a measure of the value of the currency against the weighted average of a basket of foreign currencies.
- The currencies are weighted according to the amount of trade with that country.
- NEER is not adjusted for inflation.
- **Real Effective Exchange Rate**
- It is adjusted to the inflation index.
- REER is considered a good measure to check the international competitiveness of currency.
- If REER is increasing it indicates that the Indian Rupee is appreciating with respect to the basket of currencies.

India have 6 currency in basket

US Dollar (USD)
Euro (EUR)
Japanese Yen (JPY)
British Pound Sterling (GBP)
Chinese Yuan (CNY)
Hong Kong Dollar (HKD)

- **CONVERTIBILITY OF INDIAN RUPEE**
- Convertibility means that the currency of a country can be freely converted into foreign exchange at the market-determined exchange rate.
- Convertibility is of two types- current accounts and capital accounts.
- **Current account convertibility** means the ability to convert the rupee into any foreign currency and vice-versa for the same in its current account transaction.
- **Capital account convertibility** implies the freedom to convert local financial assets into foreign financial assets and vice-versa at market-determined rates of exchange.
- The Rupee has been made fully convertible with respect to the current account since 1994.
- Thereafter, to suggest a road map for capital account convertibility, RBI constituted **Tarapore Committee** 1 and Tarapore Committee 2.
- Even today rupee is partially convertible on capital accounts.
- As per **Tarapore committee recommendations**, some pre-conditions have to be fulfilled before going ahead with complete convertibility:-
- Reduce Financial deficit to 3.5% of GDP
- Inflation target between 3-5%
- Strengthening the Indian financial sector.
- Reduce public debt.
- Adequate Forex Reserve.

INTERNATIONALIZATION OF THE RUPEE (09:28 AM)

- The Indian rupee will be termed as internationalized if it is accepted in international transactions, and nonresidents are interested in investing in rupee-denominated assets.
- Banks or firms from other countries should hold Indian rupees for financial security.
- **Requirements for internationalization of the rupee-**
- 1. Stability of currency
- 2. liquidity of a currency
- 3. Availability of the currency

Easy

4. Convertibility on Capital Account is gradually been relaxed which is also required for internationalization.

- Presently US dollars, Euros, Pound sterling, Yen, and Renminbi may be termed as international currencies.

Chinese

- Though its percentage share of India in global trade is on the lower side, the Indian government is taking adequate measures in the direction of internationalization of the rupee.

INDUSTRY (09:50 AM) (important for mains)

- **Evolution of industries**
- Indian industry experienced slow and poor productivity performance during the period 1950-80.
- The policy regime had a strong preference for the public sector, extensive control over private investment, a highly protective trade policy and inflexible labour laws.
- Promotion of small-scale sector and regional balance were additional objectives of the industrial policy regime.
- The period after the mid-1960s witnessed an aggressive import substitution regime and the strengthening of domestic regulatory structures.
- In 1991, in response to a major BOP crisis, India made a radical shift away from its long-standing policy of inward orientation and subsequent reforms have moved the policy regime significantly towards market orientation, de-regulation and liberalisation.

Industry accounts for 28 percent of GVA at current prices (2021-22 data) this is lower than the average share of 35 percent of most developing countries.

- **Industrial Policy Resolution 1948**
- It made it clear that India is going to follow a mixed economic model.
- It **classified industries into 4 broad categories-**
- **1) Strategic industries (Public Sector)-** It includes three industries in which the central Govt had a monopoly. These include Arms and Ammunition, Atomic energy and Rail transport.
- **2) Basic Industries (Public plus Private sector)-** Six industries- Coal, Iron and Steel, Aircraft manufacturing, Shipbuilding, manufacture of telephone and wireless apparatus and mineral oil were designated as basic industries.
- These industries were to be set up by central govt. However, private-sector enterprises were allowed to continue.
- **3) Important industries (controlled private sector)-** It includes 18 industries including chemicals, sugar, cotton textiles, cement, paper, machine tools, fertilizers, Air and Sea transport, tractors etc. These industries continued to remain under the private sector however, the central govt in consultation with the state govt had general control over them.
- **4) Other industries (Private and Cooperative sector)-** All other industries that were not included in the above-mentioned three categories were left open to the private sector.
- **Industrial Policy Regulation, 1956**
- Parliament accepted the socialist pattern of society as the basic aim of the industrial policy. These important developments necessitated a fresh statement of industrial policy.
- The second industrial policy resolution was adopted in 1956 replacing the resolution of 1948.

- The **1956 Industrial Resolution divided industries into 3 categories-**
- **Schedule A industries**
- The industries that were the monopoly of the state or government. It included 17 industries.
- The private sector was allowed to operate in these industries if national interest so required.
- **Schedule B Industries**
- In this category of industries, the state was allowed to establish new units but the private sector was not denied setting up or expanding existing units. E.g. Chemical industries, Fertilizers, Rubber, Aluminium etc.
- **Schedule C Industries**
- The industries not mentioned in the above categories formed part of Schedule C.
- Supportive measures were suggested for the mutual existence of public and private sector industries.
- The Policy also encouraged small-scale sectors and cottage industries.
- There was emphasis on the reduction of regional disparities i.e. fiscal concessions were granted to open industries in backward regions and public sector enterprises were given a greater role to develop these areas.
- **Monopolies Commission 1964**
- The commission looked at the concentration of economic power in the area of industries.

  Monopolies and Restrictive Trade Practices
- On the basis of the recommendations of the commission, MRTP Act 1969 was enacted.
- The Commission sought to control the expansion of all industrial units that had asset size over a particular unit.

- **Industrial Policy Statement 1973**
- The policy statement of 1973 categorised industries to be started by large business houses so that the competitive efforts of small industries were not affected. The entry of competitive small entrepreneurship was encouraged in all industries
- Large industries were permitted to start operations in rural and backward areas with a view to developing those areas and also enabling the growth of smaller industries.
- **Industrial policy 1980**
- It focused on -
- Effective management of the public sector.
- Liberalisation of industrial licensing:
- The Policy Statement provided liberalised measures in licensing in terms of automatic approval to increase the capacity of existing units under MRTP and FERA. Foreign Exchange Regulation Act
- The Asset limit under MRTP was also increased.
- The relaxation from licensing was provided for a large number of industries.
- Redefining small-scale industries in terms of investment limits to promote small-scale industries.

- **Assessment of Pre-1991 Industrial Policy**
- The pre-1991 policy created a climate for rapid industrial growth in the industries.
- India was able to develop basic industries.
- A diverse industrial structure with self-reliance on a large number of items has been achieved.
- At the time of independence, the consumer goods industry accounted for a major industrial output. in contrast capital good production was less than 4 percent of total industrial output
- In 1991 capital goods production increased to 24%
- However, it is argued that the industrial licensing system promoted inefficiency and resulted in a high-cost economy.
- Due to discretionary powers vested with the licensing authorities, the system tended to promote corruption. It resulted in restricting the entry of new enterprises and adversely affected competition.

NEW INDUSTRIAL POLICY (NIP) 1991 (11:19 AM)

- NIP was radical compared to its earlier Industrial policy. It emphasized the need to promote further industrial development based on consolidating the gains made and correcting the distortion and weaknesses to achieve international competitiveness.
- The liberalised industrial policy aimed at rapid economic growth along with integration with the global economy.
- **Objectives of NIP**
- 1) International competitiveness
- NIP emphasized the need to develop indigenous capability in technology and manufacturing to world standards.
- None of the earlier industrial policies either explicitly or implicitly have made reference to international technology and manufacturing capability in the context of domestic industrial development.

Import Substitution Industrialization

- 2) Redefining the concept of self-reliance
- From 1956 to 1991, India emphasised on ISI strategy to achieve self-reliance.
- Economic self-reliance focuses on the indigenous development of production capabilities to produce industrial goods.
- It helped to increase the vast base of capital goods, intermediate groups and basic goods industries over a period of time.
- NIP redefines self-reliance i.e. the ability to pay for imports through foreign exchange earnings earned through exports and not necessarily depending upon domestic industries.

- **Important elements of NIP:**
- 1 **De-licensing:** The removal of licensing requirements of industries domestic as well as foreign is commonly known as delicensing.
- Till the 1990s licensing was compulsory for almost every industry which was not reserved for the public sector.
- With progressive liberalisation and deregulation of the economy, industrial licenses which are regulated under the 1956 policy are required in very few cases.
- The objective of industrial delicensing is to enable business enterprises to respond to fast-changing external conditions.
- Entrepreneurs are free to make investment decisions based on their own commercial judgment.
- This facilitates technological dynamism and international competitiveness.
- 2 **Dereservation and Privatisation through Disinvestment:**
- Reduction in a number of industries reserved for the public sector.
- Only two industries Atomic energy and Railway operations are reserved for the public sector. so that they would have power to make decisions
- The policy emphasized bringing down equity in all non-strategic PSUs to 26% or lower.
- Restructure or revive potential viable PSUs and close down PSUs that can not be revived and fully protect the interest of workers.
- Rationalisation of manpower i.e. a voluntary retirement scheme has been introduced in a number of PSUs to reduce the surplus manpower.
- Private equity participation- PSUs have been allowed to raise equity finance from the capital market. This has put additional pressure on PSUs to improve their performance.
- Referral to the board for industrial and financial reconstruction ~~(BFIR)~~ (BIFR)- Many sick PSUs have been referred to BIFR for rehabilitation or winding up.
- Disinvestment and privatisation of existing PSUs have been adopted to improve corporate efficiency, financial performance and competition among PSUs.

3. **Amendment of MRTP Act 1969**
- Since 1991, the MRTP Act has been restructured and pre-entry restrictions have been removed with regard to prior approval of the Govt for the establishment of new undertakings, expansion, mergers, take-over and appointment of directors of the company.
- The MRTP Act has been replaced by the **Competition Act 2002.** This law aims at upholding competition in the Indian Market. The Competition Commission has been established to control competition in India.

4. **Liberalised foreign investment policy**
- The NIP radically reformed the foreign investment policy to attract foreign investment. FERA 1973 has been repealed and replaced by the Foreign Exchange Management Act.
- Under FEMA, investment and returns can be freely repatriated except where the approval is subject to specific conditions as specified in the sector-specific policies.
- Focus on dilution of restrictions on FDI, and FII.
- FDI is allowed into the services sector which can contribute to the economic growth of the country.

5. **Dilution of protection to small-scale industry and emphasis on competitiveness-** Small-scale industries enjoyed a unique status in the Indian economy due to their diversified presence across the countries, thereby utilising resources and skills. Due to their potential to generate large-scale employment, produce consumer goods for mass consumption, alleviate poverty etc.
- Industrial policies protected the SSI sector however since 1991 the SSI sector has been diluted the policies focused on the following aspects:
- Promotion of competitiveness by addressing the basic concerns of the sector like technology, finance and marketing. Subsequently, the number of items reserved exclusively for small industry manufacturing was gradually reduced.

TOPIC OF THE NEXT CLASS- MSME