NEW ECONOMIC POLICY

The main characteristics of new Economic Policy 1991 are:

1. Delicencing. Only six industries were kept under Licencing scheme.

2. Entry to Private Sector. The role of public sector was limited only to four industries; rest all the industries were opened for private sector also.

3. Disinvestment. Disinvestment was carried out in many public sector enterprises.

4. Liberalisation of Foreign Policy. The limit of foreign equity was raised to 100% in many activities, i.e., NRI and foreign investors were permitted to invest in Indian companies.

5. Liberalisation in Technical Area. Automatic permission was given to Indian companies for signing technology agreements with foreign companies.

6. Setting up of Foreign Investment Promotion Board (FIPB). This board was set up to promote and bring foreign investment in India.

7. Setting up of Small Scale Industries. Various benefits were offered to small scale industries.

Three Major Components or Elements of New Economic Policy:

There are three major components or elements of new economic policy- Liberalisation, Privatisation, Globalisation.

1. Liberalisation:

Liberalisation refers to end of licence, quota and many more restrictions and controls which were put on industries before 1991. Indian companies got liberalisation in the following way:

(a) Abolition of licence except in few.

(b) No restriction on expansion or contraction of business activities.

(c) Freedom in fixing prices.

(d) Liberalisation in import and export.

(e) Easy and simplifying the procedure to attract foreign capital in India.

(f) Freedom in movement of goods and services

(g) Freedom in fixing the prices of goods and services.

2. Privatisation:

Privatisation refers to giving greater role to private sector and reducing the role of public sector. To execute policy of privatisation government took the following steps:

(a) Disinvestment of public sector, i.e., transfer of public sector enterprise to private sector

(b) Setting up of Board of Industrial and Financial Reconstruction (BIFR). This board was set up to revive sick units in public sector enterprises suffering loss.

(c) Dilution of Stake of the Government. If in the process of disinvestments private sector acquires more than 51% shares then it results in transfer of ownership and management to the private sector.

3. Globalisation:
It refers to integration of various economies of world. Till 1991 Indian government was following strict policy in regard to import and foreign investment in regard to licensing of imports, tariff, restrictions, etc. but after new policy government adopted policy of globalisation by taking following measures:

(i) Import Liberalisation. Government removed many restrictions from import of capital goods.

(ii) Foreign Exchange Regulation Act (FERA) was replaced by Foreign Exchange Management Act (FEMA)

(iii) Rationalisation of Tariff structure

(iv) Abolition of Export duty.

(v) Reduction of Import duty.

As a result of globalisation physical boundaries and political boundaries remained no barriers for business enterprise. Whole world becomes a global village.

Globalisation involves greater interaction and interdependence among the various nations of global economy.

Impact of Changes in Economic Policy on the Business or Effects of Liberalisation and Globalisation:

The factors and forces of business environment have lot of influence over the business. The common influence and impact of such changes in business and industry are explained below:

1. Increasing Competition:

After the new policy, Indian companies had to face all round competition which means competition from the internal market and the competition from the MNCs. The companies which could adopt latest technology and which were having large number of resources could only survive and face the competition. Many companies could not face the competition and had to leave the market.

For example, Weston Company which was a leader in T. V. market with more than 38% share in T.V. market lost its control over the market because of all round competition from MNCs. By 1995-96, the company almost became unknown in the T.V market.

2. More Demanding Customers:

Prior to new economic policy there were very few industries or production units. As a result there was shortage of product in every sector. Because of this shortage the market was producer-oriented, i.e., producers became key persons in the market. But after new economic policy many more businessmen joined the production line and various foreign companies also established their production units in India.

As a result there was surplus of products in every sector. This shift from shortage to surplus brought another shift in the market, i.e., producer market to buyer market. The market became customeroriented and many new schemes were made by companies to attract the customer. Nowadays products are produced/manufactured keeping in mind the demands of the customer.

3. Rapidly Changing Technological Environment:
Before or prior to new economic policy there was a small internal competition only. But after the new economic policy the world class competition started and to stand this global competition the companies need to adopt the world class technology.

To adopt and implement the world class technology the investment in R & D department has to increase. Many pharmaceutical companies increased their investment in R and D department from 2% to 12% and companies started spending a large amount for training the employees.

4. Necessity for Change:
Prior to 1991 business enterprises could follow stable policies for a long period of time but after 1991 the business enterprises have to modify their policies and operations from time to time.

5. Need for Developing Human Resources:
Before 1991 Indian enterprises were managed by inadequately trained personnel's. New market conditions require people with higher competence skill and training. Hence Indian companies felt the need to develop their human skills.

6. Market Orientation:
Earlier firms were following selling concept, i.e., produce first and then go to market but now companies follow marketing concept, i.e., planning production on the basis of market research, need and want of customer.

7. Loss of Budgetary Support to Public Sector:

Prior to 1991 all the losses of Public sector were used to be made good by government by sanctioning special funds from budgets. But today the public sectors have to survive and grow by utilising their resources efficiently otherwise these enterprises have to face disinvestment. On the whole the policies of Liberalisation, Globalisation and Privatisation have brought positive impacts on Indian business and industry. They have become more customer focus and have started giving importance to customer satisfaction.

8. Export a Matter of Survival:

The Indian businessman was facing global competition and the new trade policy made the external trade very liberal. As a result to earn more foreign exchange many Indian companies joined the export business and got lot of success in that. Many companies increased their turnover more than double by starting export division. For example, the Reliance Company, Videocon, MRF, Ceat Tires, etc. got a great hold in the export market.