CHAPTER - 9 : ECONOMIC POLICY OF INDIA SINCE 1991

Introduction :

In the beginning of the last decade of the 20^{th} century, Indian economy experienced an economic crisis. At the end of June 1991, foreign currency assets declined to such an extent that it was barely enough to finance two weeks of imports. The annual rate of inflation reached to 16.7% in August 1991.

The government expenditure was greater than its revenue due to defence expenditure, subsidies, interest on loans etc. The positive effects of socialistic pattern of society was on the verge of decline. On this ground, it was necessary to bring new changes in the economy. Hence, Government of India adopted a New Economic Policy (NEP) in 1991.

The process of new economic policy which started in 1985 got a momentum in 1991. The new industrial policy introduced radical changes to unshackle India's industrial economy from the cobweb of unnecessary bureaucratic controls and rigidity in the government procedures. According to the new industrial policy, the state will no longer play the role of a controller and regulator, but it will act as a facilitator, co-ordinator, inspirer and supervisor.

Main Objectives of the Economic Policy of 1991 :

1) To plunge the Indian economy into the arena of Globalisation.
2) To bring down the rate of inflation
3) To correct the disequilibrium in the balance of payments.
4) To acquire higher economic growth rate.
5) To build sufficient foreign exchange reserves.
6) To achieve economic stabilisation and to reduce fiscal deficit.
7) To establish international trade relations for free flow of goods without any restrictions.
8) To increase the participation of private sector.

Features of the Economic Policy of 1991 :

1) **Delicensing :** It means abolition of government licence required to carry on any business or industrial activity. All industries except 18 specified industries of strategic importance required licence. As per the Dept. of Industrial Policy and Promotion, Government of India, only the following four industries require compulsory licensing :
   1) Electronic Aerospace and defence equipment
   2) Industrial Explosives
   3) Hazardous chemicals, drugs and pharmaceuticals.
   4) Cigarettes
2) **Abolition of Monopolies and Restrictive Trade Practices (MRTP) Act :** According to MRTP Act, it was compulsory for large industrial houses to take the approval of Central government for establishment, expansion, merger etc. This resulted in slow industrial growth. Abolition of MRTP Act has encouraged industrial growth.
3) **Encouragement to small sector :** The government encouraged small sector units to attain a higher growth rate in output, employment and export sector. Its investment limit was increased from 1 crore to 5 crores.
4) **Encouraging foreign investment :** Industrial policy of 1991 approved Foreign Direct Investment (FDI) to encourage investment in high priority industries requiring high investment and technology. Initially FDI was permitted upto 51% of total invesment in selected industries. Later this limit was raised to 74% and then 100% for specific industries.

5) **Reducing role of Public Sector :** Many changes were made in the public sector policy to include following objectives :

a) Ending state monopoly

b) Improving efficiency of public sector

c) Releasing capital blocked in sick public sector enterprises

To encourage private sector, NEP reduced the number of industries in public sector from 17 to 8. From 2014, there are only two industries reserved for public sector which include railways and atomic energy.

6) **Trade Liberalisation :** Import licensing controls have been abolished. Almost all capital goods, raw materials, intermediate goods and other components were made freely importable. Established exporters are allowed to raise external credit to finance their trade. Special Economic Zones (SEZ) are set up to promote exports. The Government has also introduced the concept of Agro Export Zones (AEZ) to encourage agricultural exports.

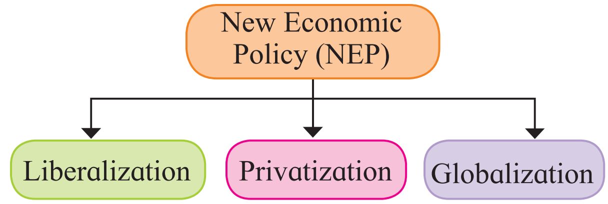
7) **Reforms in Insurance Sector :** Insurance sector was a monopoly of the government. The new policy passed Insurance Regulatory and Development Authority Act (IRDA) in 1999 to introduce reforms in this sector. The IRDA has given licence to many private companies to enter insurance business. This has ended the monopoly of Government in this sector.

8) **Reforms in financial sector :** Earlier only co-operative banks and public sector banks were permitted to do banking business in the financial sector. The new economic policy has also permitted the entry of new private banks and foreign banks.

Find out :

Names of five Private Banks and Foreign Banks.

Components of new economic policy :



A) Liberalisation :

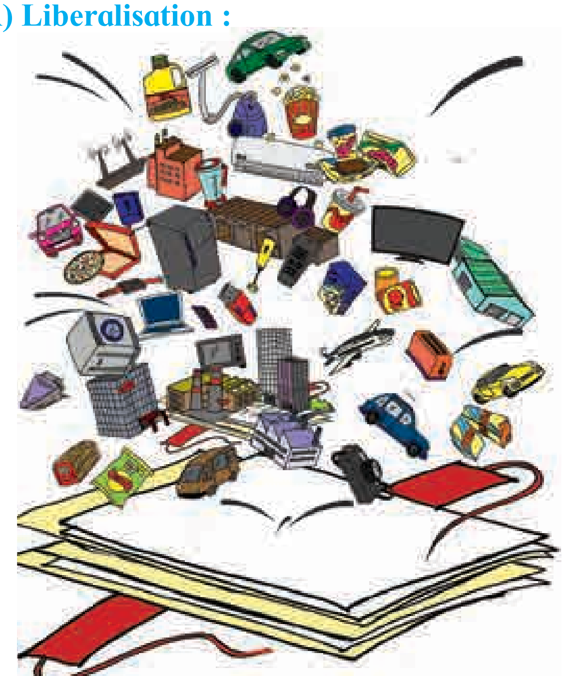


Fig. 9.1 : Liberalisation

Meaning : Liberalisation refers to 'economic freedom' or 'freedom for economic decision'. It means producers, consumers and owners of factors of production, are free to take decision to promote their self interest. Adam Smith in his book, 'Wealth of Nations' suggested that economic liberalisation is the best economic policy to promote economic growth and well being of the people.

The economic policy which leads to reduction if not removal, of barriers in the working of market mechanism and free competition is called economic liberalisation.

Measures taken for Liberalisation :

1) **Flexibility of Interest rate :** Under the policy of liberalisation, commercial banks have the freedom to determine the rate of interest depending upon the market forces of demand and supply.

2) **Freedom for expansion of industries :** In this new liberalised era, the industries are free to diversify their production capacity and reduce the cost of production. Earlier, Government used to fix the maximum limit of production capacity. No industry could produce beyond that limit. Now the industries are free to decide their own production limit on the basis of market requirements.

3) **Abolition of Monopolies and Restrictive Trade Practices :** According to MRTP Act of 1969, all those companies having assets worth Rs. 100 crores and more were classified as MRTP firms, and were subject to several restrictions. Now these firms have the freedom to take investment decisions.

4) **Reforms in FERA :** To bring about flexibility in the laws relating to foreign exchange. Foreign Exchange Regulation Act (FERA) was replaced by Foreign Exchange Management Act (FEMA). This would encourage international trade.

5) **Investments in infrastructure :** Infrastructure was opened to domestic as well as foreign investors. They could invest in rail, roads and power projects.

6) **Encouragement to foreign technology :** Liberalisation has allowed the use of foreign technology in high priority industries. This helps to reduce the cost and make the industries competitive.

7) **SEBI (Securities and Exchange Board of India) :** SEBI was established on 12th April 1992. This step was introduced to protect the interest of investors in securities, promote development and regulate the securities market.

B) Privatisation :

Meaning : Privatisation means transfer of ownership from public to private sector. In the broader sense, it means introduction of private management and control with or without change in ownership of public enterprise. In simple words, Privatisation refers to a process that reduces the involvement of the public sector and increases that of private sector in economic activities.

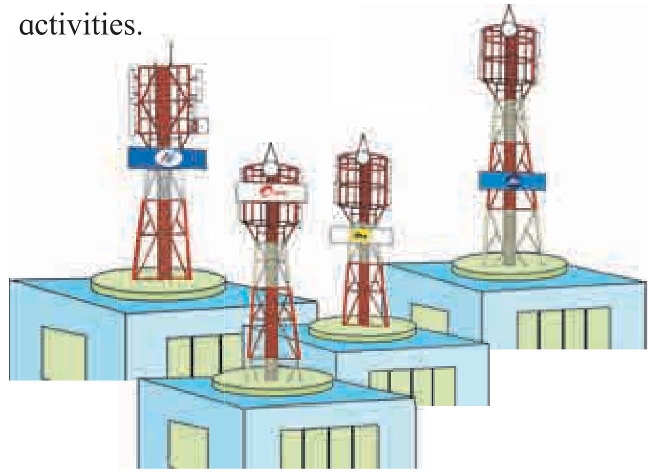


Fig. 9.2 : Privatisation

Measures taken for Privatisation :

1) **Disinvestment :** It is the act of selling shares of sick public sector units to the private sector. e.g. Disinvestment of Maruti, ITDC hotels, IPCL, VSNL etc.

2) **Dereservation policy :** The Industrial Policy of 1956 reserved 17 industries for the public sector. NEP reduced this number to eight, gradually to three and then two. At present only railway transport and atomic energy are reserved for the public sector.

3) **Establishment of BIFR (Board of Industrial and Financial Reconstruction) :** NEP has set up Board of Industrial and Financial Reconsrtuction to take decision regarding sick public sector units. By the end of 1996, 188 cases of sick public sector units were referred to BIFR.

4) **Creation of National Renewal Board (NRB) :** When the loss making public sector units are closed, the workers have to face the problem of unemployment and poverty. To solve this problem, goverment has created National Renewal Board (NRB). NRB takes the responsibility of providing compensation to the retrenched workers as well as those seeking voluntary retirement.

5) Navratna Status : During 1997-98, nine public sector units were selected and given the status of 'Navratnas' on the basis of their performance. These Navratnas were given full financial and managerial autonomy. These Navratnas are as follows :

1) IOC : Indian Oil Corporation.
2) ONGC : Oil and Natural Gas Corporation.
3) HPCL : Hindustan Peroleum Corporation Ltd.
4) BPCL : Bharat Petroleum Corporation Ltd.
5) IPCL : Indian Petrochemicals Corporation Ltd.
6) VSNL : Videsh Sanchar Nigam Limited
7) BHEL : Bharat Heavy Electricals Ltd.
8) SAIL : Steel Authority of India Ltd.
9) NTPC : National Thermal Power Corporation

At present, public sector units (PSUs) have been further categorised into Miniratnas and Maharatnas.

- **Miniratna Companies :** The concept of 'Miniratna' was introduced by the Government of India in 2002. Miniratnas are furthur divided in two cotegories.

  Miniratna Category - I : A public sector company should have made profit in the last three years continuously, the pre-tax profit should have been ₹ 30 crores or more in at least one of the three years.

  Miniratna Category - II : A public sector company can be called as miniratna category II, if it has continuously made profit for last three years as well as it has a positive net worth.

- **Maharatna Companies :** The Maharatna category for Central Public Sector Enterprises (CPSEs) was introduced in 2009 with the objective to empower mega CPSEs to expand their operations and emerge as global giants or become Indian multinational companies (MNCs).

Find out :

Names of companies coming under Maharatna and Miniratna status.

C) Globalisation :

Fig. 9.3 : Globalisation

Meaning :

Globalisation has been the ultimate aim of the new economic policy. To be more specific, liberalisation and privatisation finally lead to globalisation of the economy.

Globalisation means the creation of global economy. A Global economy is a borderless economy having a free flow of goods and services, capital, labour and technology across the national borders. In other words 'Globalisation' means integrating the economy of a country with the world economy. It removes all barriers in free trade and investments.

Measures taken for Globalisation :

1) **Removal of quantitative restrictions :** All the quantitative restrictions have been removed on imports and exports. Further tariff rates have been brought down considerably. The import duty on industrial goods have been reduced.

2) **Encouragement to Foreign Capital :** Government has opened the economy to foreign investments. As a result, foreign capital is attracted towards various sectors.

Indian economy has become a part of global economy.

3) **Convertibility of Rupee :** Exchange rate of rupee has been made flexible. Rupee is made fully convertible to all current account transactions.

4) **Foreign collaboration :** Indian companies are allowed to enter into important foreign collaboration, e.g. Maruti-Suzuki, Hero-Honda, Tata-Corus deal of iron and steel in South Africa.

5) **Long term trade Policy :** To ensure longer duration in foreign trade, changes were made in the foreign trade policy.
Main features of this policy included :
a) Liberalised policy
b) Removal of restrictions on foreign trade.
c) Encouragement to Foreign Collaboration.

6) **Encouragement to Exports :** Through EXIM policy, various incentives are given to exporters. Special Economic Zones are created to encourage exports.

Stimulate your memory :

1) What is Corporate Social Responsibility (CSR)?
2) How does it help the society?

Evaluation of the Economic Policy of 1991:

Major Achievements :

1) **Revolution in IT Sector :** Globalisation has created a revolution in the IT Sector. It has contributed to India's Gross Domestic product (GDP). Indian software engineers are in high demand in developed countries like U.S.A, U.K., France etc.

2) **Improvement in Financial Facilities :** Due to entry of private and foreign banks, financial sector has become highly professional and competitive. They are providing quick services through credit cards, e-banking etc. to their customers.

3) **Improvement in educational standards :** Globalisation has motivated Indian students to go abroad and seek higher education as an effect of flexibility in getting educational loans, scholarships and other required facilities.

4) **Increase in Exports :** Our exports have increased considerably. India is not only exporting traditional products but also machinery, chemicals, computers etc. Consequently, our adverse balance of payments position is improving.

5) **Diversification of cropping pattern :** Earlier, Indian farmers were growing only staple food and cash crops. But now, as per the requirement of globalisation they have diversified their cropping pattern from traditional products to non-traditional products. They are developing horticulture, floriculture, medicinal plants etc.

6) **Solves the problem of scarcity :** Due to liberal imports, we can overcome scarcity of goods and raw materials. This helps to solve the problem of inflation.

Major Failures :

1) **Lack of Self Sufficiency :** A country under Globalisation cannot achieve self-sufficiency in food production because it is forced to produce only those goods which are demanded at global level and which are profitable.

2) **Adverse effect on domestic market :** Due to globalisation and liberalisation our domestic markets are adversely affected. They are flooded with imported goods. Due to liberal import policy, imported goods are cheaper than the domestic products. They are highly demanded.

3) **Affects poor farmers :** The benefits of globalisation are being enjoyed by the rich farmers. They are growing exportable

crops. But poor farmers are left unnoticed. They cannot face the competition. Hence, they are forced to sell their land or take extreme steps. They are facing the problem of indebtedness and poverty.

4) **Unhealthy competition :** The Indian entrepreneurs cannot face competition with multi-national companies (MNCs). As a result, they are forced to declare their units as a sick unit or close it down or to sell it out.

5) **Neglects welfare aspect :** Privatisation of services like health, communication, education has led to exhorbitant charges and fees for maximisation of profit. Hence, welfare aspect has taken a backseat.

6) **Unemployment :** Many Indian industries are compelled to close down as they cannot face the competition with multinational companies. Hence, large number of workers are thrown out of jobs leading to unemployment, poverty and inequality.

EXERCISE

Q. 1. Complete the following statements by choosing the correct alternative :

1) After Independence, India had adopted ....
   a) Socialism
   b) Capitalism
   c) Mixed Economy
   d) Communism

2) The new economic policy approved foreign technology in ....
   a) Cottage industries
   b) Small scale industries
   c) Micro enterprises
   d) High priority industries

3) At present, the number of industries reserved for public sector has been reduced to ....
   a) 3 b) 5 c) 7 d) 2

Q.2. Assertion and Reasoning type questions :

1) **Assertion (A)** Delicensing of industries was an important step taken under liberalization.

   Reasoning (R) Unwanted controls and restrictions led to economic stagnation prior to 1991.
   a) (A) is TRUE but (R) is FALSE
   b) (A) is FALSE but (R) is TRUE
   c) (A) and (R) both are TRUE and (R) is the correct explanation of (A)
   d) (A) and (R) both are TRUE but (R) is not the correct explanation of (A)

2) **Assertion (A)** In 1990-91, India faced an acute shortage of foreign exchange reserves.

   Reasoning (R) Import quotas and tariffs led to an increase in the imports.
   a) (A) is TRUE but (R) is FALSE
   b) (A) is FALSE but (R) is TRUE
   c) (A) and (R) both are TRUE and (R) is the correct explanation of (A)
   d) (A) and (R) both are TRUE but (R) is not the correct explanation of (A)

3) **Assertion (A)** Post liberalization, the sale of domestic goods has increased.

   Reasoning (R) The demand for imported goods had increased due to liberal policy.
   a) (A) is TRUE but (R) is FALSE
   b) (A) is FALSE but (R) is TRUE
   c) (A) and (R) both are TRUE and (R) is the correct explanation of (A)
   d) (A) and (R) both are TRUE but (R) is not the correct explanation of (A)

4) **Assertion (A)** Due to Globalisation, a country cannot achieve self- sufficiency in food production.

   Reasoning (R) Globalisation has created a revolution in IT sector.
   a) (A) is TRUE but (R) is FALSE
   b) (A) is FALSE but (R) is TRUE
   c) (A) and (R) both are TRUE and (R) is the correct explanation of (A)
   d) (A) and (R) both are TRUE but (R) is not the correct explanation of (A)

Q. 3. Find the odd word out :

1) New Economic Policy -
   Liberalization, Privatization, Demonetization, Globalisation
2) Industries requiring compulsory licensing -
   defence equipment, agro-based industries, cigarettes, industrial explosives
3) Navratna status companies -
   SPCL, IOC, ONGC, HPCL
4) Liberalization dealt with the following -
   MRTP, FERA, SEBI, NTPC

Q. 4. Identify and explain the concepts from the given illustrations :

1) Vehicles manufactured by various automobile companies are now available in India.
2) Government equity in some public sector enterprises is sold to the private sector.
3) Foreign investments are encouraged on a large scale in the industrial sector of India.

Q. 5. Do you agree or disagree with following statements? Give reasons :

1) Liberalisation has permitted the use of foreign technology.
2) Government has given private enterprises free access to public sector.
3) Government has monopoly in insurance sector.
4) The creation of National Renewal Board was done to remove poverty.
5) Indian Oil Corporation is one of the public sector units among 'Navratnas'.

Q. 6. Answer in detail :

1) Explain the features of economic policy of 1991.
2) Explain the measures undertaken for Globalisation.

Q. 7. Read the following passage and answer the questions given below :

Indian ice-cream industry is one of the fastest growing segments of the dairy and food processing sector. India has a low per capita consumption of ice-cream of 400 ml whereas in USA it is 22,000 ml and in China it is 3000 ml.

The per capita consumption of ice-cream is low in India because it is a country filled with traditional sweets of more than 100 varieties. In developed countries, people have either pastries or ice-creams for dessert. In the era of Globalisation, the mindset of the people is fast changing. This is because multi-national companies have set up a number of ice-cream parlours, with a lot more varieties and flavours that attract the younger lot. Besides this, there are better delivery systems.

The ice-cream sector has great potential for growth in the country due to improvement in the cold chain infrastructure, increasing disposable income and changing lifestyle of the people. However, it is taxed higher with 18 percent GST while other dairy products in the same basket such as butter and cheese are taxed at 12 percent.

The ice-cream industry has generated revenue of more than $1.5 billion in 2016-17. With an employment of 15 lakh people directly or indirectly, it is also considered one of the largest employers of the dairy and food processing industry.

1) Identify the reason for low per capita consumption of ice-cream in India.
2) Explain the impact of Globalisation on the Indian ice-cream industry.
3) Find out the factors that could lead to the growth of ice-cream industry in India.
4) Express your views about the implications of higher GST on ice-cream industry in India.