Key features of New Economic Policy 1991 (Red lines/paragraphs may be avoided)

The New Economic Policy 1991 brought a sea-change in the Indian economy. The govt., with this policy, did many reforms and went ahead with radical policy changes. The basic idea that India was a socialist country was challenged by the new economic policy 1991.

The govt. give up monopolistic control over many industrial sectors: In the pre-1991 era, the government controlled key industrial sectors namely iron and steel industry, heavy machinery industry, air travel sector, ship building, telecommunication and the general communications sectors, etc. The private players, after the policy, could enter these industries without many obstacles. The Indian railways, the army equipment industry, the nuclear energy industry etc. still remain under the control.

1. **Delicencing** (The end of licence Raj): Only six industries were kept under Licencing scheme. Previously, the private players had to obtain licences from the govt. in order to start a business in any industrial sectors. After 1991, the practice of obtaining a licence for starting a business was largely done away with. The sectors where licensing still remained were the alcohol sector, dangerous chemical sector, cigarette sector, drugs and medicine sector, explosive sectors, etc.
2. **Disinvestment** (The govt. transferred its equity in public sector enterprises to private players): As part of the NEP, it was mandated that the govt. would have to give up control over the commercial enterprises. This led the govt. to transfer its equities held in the public sector enterprises to private players. As a result of this privatisation the govt. achieved significant monetary gains which helped it to fill the deficits and clear debts.

3. **The financial sector reforms**: Just like the industrial sector, in the financial sector too, private banks were allowed to operate in the country.

4. **Foreign Direct Investment** (FDI): The foreign direct investment policy in India also became matured after the NEP. Now, foreign players could easily enter the Indian market. It was allowed to buy a 51% stake in a domestic company.

   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. **Reforms in taxation**: The NEP reformed the prevailing tax policy. On one hand, it benefitted the citizens lowering the tax rate and on the other, it benefitted the government by bringing many previously non-taxable sectors under the purview of taxation.

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

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

8. Import-Export reforms: After 1991, the companies were allowed to import a wider range of products. The outward looking approach to trade offered the citizens to enjoy a large variety of overseas products. The monopoly of the domestic businesses was over and the price of the commodities went down. The import taxes were lowered.

Globalisation: Because of the opening up of the Indian market to foreign players and products, the Indian society tasted the advantages of globalisation.

Three Major Components or Elements of New Economic Policy:

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.

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

Till 1991 Indian government was following strict policy in regard to foreign investment, licensing of imports, tariff and quota 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.

Q. and Ans.

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 -- increasing 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 existing companies could not face the competition and had to leave the market. Again, many new industries came up taking the advantage of freer economic environment.

2. **More Demanding Customers**:
Prior to new economic policy there were very few industries or production units. As a result there was shortage of products 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 customer- oriented.

3. **Rapidly Changing Technological Environment**:
Before the 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. **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. **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 largely by utilising their resources efficiently otherwise these enterprises have to face disinvestment.

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, MRF, Tata motors, Ceat Tyres, IT companies, pharmaceuticals, etc. got a great hold in the export market.

More and more Indian businessman, students and politicians came in contact with global powerhouses and the exchange of ideas proved valuable.

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.

Conclusion: The Preamble to the Constitution of India says that India is a socialist country. Yet socialism failed to lead India towards the light. As a result, the Narasimha Rao govt. had to go almost against the preamble and open up the economy. This led to private companies getting richer and stronger.

(ii). Government enterprises are shrinking in numbers and size.

(iii) Many poor people in the country were not able to adjust with the new business environment. Quite a large number of cottage and household industries failed to survive post NEP.

(iv) Income inequalities in India has increased significantly post NEP.

(v) Rising share of the organised sector further marginalised the informal sector.

(vi) Manufacturing and agricultural sectors lag behind.

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