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The First Two Decades of the Indian Economy were Affected by the New Industrial Policy of 1991, with Particular Attention to the Industrial Sector

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Abstract: *Industrialization is the main requirement for the development or expansion of the Indian economy since it is crucial to the economy and can help with problems like unemployment, backwardness, general poverty, low productivity, and a low standard of living, among other things. In order to increase the productivity and global competitiveness of its industries, India began liberalizing its economy. Since the early 1980s, there have been multiple attempts to liberalize the industrial policy framework. The new industrial policy of 1991 completely liberalized the industrial strategy itself. The government is working on three distinct reforms: first, the industrial licensing system will be deregulated, delicensing, decontrolled, and debureaucratized; second, foreign trade and currency exchange will be liberalized; and third, various measures will be put in place to promote foreign direct investment. All of these programs began in 1991, and since then, additional liberalization has been carried out annually with the release of a new budget. This article looks at how new industrial strategy and regulations affect industrial performance.*

Keywords: *Industrialization, Liberalization, Reforms, New Industrial Policy, Industrial Licensing*.

Introduction:

Globalization has led to the establishment of borderless economies, largely because of liberal economic policies and opening up domestic economies to foreign capital inflows in the form of direct investment and equity. Particularly in developing nations like India, the evolution and make-up of the domestic industrial system have been affected. Following the 1931 fiscal crisis, India's economy started to undergo economic reforms aimed at turning it from a slow-growing economy to a market-driven economy and reviving it with the most efficient use of its resources. It was made possible by rapid industrialization. They are crucial to the growth of emerging nations because they can address problems like widespread poverty, unemployment, backwardness, low productivity, low standard of living, etc. The competition, both at the regional and national levels, has caused the area to expand in all directions. The ultimate objective of economic reforms was to improve the moral character and technological modernity of India's small-scale industrial SS sector overall, with the hope that these improvements would allow the sector to grow more sustainably and at a higher level on a national and regional scale. In 1951, Indian Prime Minister Jawaharlal Neheru stated that the nation must industrialize as quickly as possible. In terms of manufacturing, India hasn't yet surpassed China as the world leader. The First Industrial Policy was established in 1948, and the Industrial Policy Resolution followed in 1956. A solid basis for industrial growth in the country was established by the Industrial Policy Resolution of 1956, which offered guidelines for industry expansion until 1973. In order to accelerate industrial growth, increase the productivity and income of industrial workers, promote technical independence, and increase employment levels, the Industrial Policy was amended in 1977 after 1973. After 1977, the industrial policy had a number of modifications, but the most important historical development occurred in 1991 when the New Industrial Policy was introduced as part of the New Economic Policy. This article looks at how new industrial strategy and regulations affect industrial performance.

Literature Review:

Bargal et al. assessed the three variables: GDP, SSI production, and SSI exports. Additionally, they contrasted the performance indicators of SSIs before and after liberalization. The investigation found that the annual average growth rate of the different SSI metrics had declined during the 1990s compared to the years before the reform. The GDP of the Indian economy and exports or small-scale sector production do not have a lead-lag causal relationship.

Singh et al. looked at the success of the Indian small-scale industry and focused on how new laws have given this sector new opportunities. According to their research, the number of SSI units, productivity, and employment levels have all increased in the SSI industry. Bala Subrahmanya emphasized how the small-scale industry is significantly impacted by both domestic and international changes. The survey found that small businesses suffered in terms of growth, output, employment, and exports. The study emphasized how the small-scale industry sector now has access to new markets and opportunities thanks to the new legislation.

Dixit and Pandey. employed co-integration analysis to examine the causal relationships between SME output, exports, employment, and fixed investment, as well as the GDP, total exports, and employment (public and private) of India over the 1973–1974 through 2006–2007 timeframe. According to their analysis, there is a positive causal association between India's GDP and the output of SMEs.

Objectives of the Study:

- To ascertain whether or not the new economic policy has resulted in an expansion of India's industrial sector.
- To identify the negative effects of post-liberalization industrial growth.
- To investigate the new industrial policy's components

Research Techniques:

The current research combines descriptive and exploratory research methods.

Data Sources:

The information was gathered through a variety of websites, journals, and books that have been published and is entirely secondary.

Industrial Policy:

Industrial policy refers to the procedures, tenets, regulations, laws, and policies that control a country's industrial activities and industrialization trend. It draws attention to the government's approach in view of the industrial sector's growth.

Industrial Policies Prior to 1991

- Industrial Policy Resolution of 1948
- Industrial Policy Resolution of 1956

- Industrial Policy Resolution of 1973
- Industrial Policy Resolution of 1977
- Industrial Policy Resolution of 1980

New Economic Policy of 1991:

An important watershed in India's post-independence economic history occurred in 1991. The country experienced a terrible economic crisis as a result of a disastrous balance of payments predicament. The crisis was utilized as an opportunity to implement several important changes to the approach and reach of economic policy. Several policies were put into place in response to the crisis with the intention of stabilizing the situation and bringing about structural change. While the stabilization measures were designed to solve the shortcomings that had surfaced on the fronts of the budget and balance of payments, the structural reforms aimed to remove the rigidities that had infiltrated the various sectors of the Indian economy. India's New Economic Policy is credited to former Prime Minister Manmohan Singh.

Main Objectives of New Economic Policy-1991, July 24:

- To drive the Indian economy into the global marketplace and give it a fresh focus on market orientation.
- The goal of the New Economic Policy was to remove most barriers to the free flow of capital, people, technology, and goods across borders.
- It aimed to stabilize the economy and turn it into a market economy by getting rid of all types of pointless regulations.
- It had the intention of increasing economic growth and accumulating enough foreign exchange reserves.
- It aimed to eliminate payment imbalances and lower the pace of inflation.

The government started making some major changes to its policies regarding industry, commerce, foreign investment, fiscal restraint, and other areas in the middle of 1991. The many elements come together to create an economic plan. This is very different from earlier methods. The New Economic Policy seeks to boost the system's efficiency and productivity in order to create a more competitive economic climate. This was to be achieved by lowering barriers to entry and limitations on corporate growth.

Provision under New Industrial Policy:

- Industrial delicensing policy
- Policy on public sector (reducing no of industries for public sector)
- Abolition of Monopolistic and Trade Practice Act
- Policy on Foreign Investment and Technology Agreements
- Abolition of phased manufacturing programmes for new projects
- Removal of mandatory Convertible Clause

Measures Taken in New Economic Policy:

The economy deteriorated as a result of several constraints. Since rules like the MRTP Act of 1969 demotivated businesses, the businesspeople had little drive to start new industries. Corruption, needless delays, and inefficiency rose as a result of these regulations. The rate at which the economy expanded slowed. Therefore, in this case, economic reforms were put into place to reduce the economic limitations.

Liberalization:

Before starting a new company, the private sector had to get a government license. This policy exempts the private sector from licensing requirements and other limitations. An industrial license is necessary for the following industries:

- Defence equipment
- Industrial explosives
- Drugs
- Cigarette
- Liquor
- Hazardous Chemicals.

Following steps were taken under the liberalization measure-

- Free determination of interest rate by the commercial banks
- Freedom to import capital goods
- Freedom for expansion and production to industries
- Abolition of restrictive trade practices.
- Increase in the investment limit for the small scale industries (SSIs)

Privatization:

Allowing the private sector to start companies in industries that were previously controlled by the governmental sector is known as privatization. This policy led to the sale of numerous PSUs to the private sector. This process entails giving the private sector (PSUs) ownership of Public Sector Units.

Steps taken for Privatization:

- Sale of shares of PSUs
- Disinvestment in PSUs
- Minimization of Public Sector.

Globalization:

The process of making anything global, worldwide, or otherwise considering the entire world is known as globalization. In its broadest definition, globalization describes the ways in which the domestic economy engages with the rest of the world in relation to foreign investment, trade, production, and financial matters.

Taking Globalization-Related Steps-

- Reduction in tariffs
- Long term trade policy
- Partial convertibility of Indian currency
- Increase in Equity limit of Foreign Investment.

Industrial Development during the Five Year Plans:

India enacted a growth and development plan in 1951. According to this plan, the state was solely responsible for starting new companies. It signifies economic reorganization that benefits the industrial sector. India wants its economy to expand rapidly and sustainably after attaining independence. In order to develop and grow the Indian economy Given its substantial economic contribution to India, the industrial sector must be developed. We benefit from increasing industrialization in several ways, such as:

- Higher Employment
- Regional Development
- Growth in National Income

Performance of Indian Industry in Pre and Post Reform Period:

Per-reform Period (1981-1982 to 1990-1991) One could refer to the 1980s as a time of industrial recovery. A examination of the Index of Industrial Production amply demonstrates this (Base 1980- 81). Following are industrial growth rates based on this index:

Rates of annual growth in the main industrial sectors from 1981-1982 to 1990-1991 (in percent)

Period (Weight)	Mining (11.46)	Manufacturing (77.11)	Electricity (11.43)	General (100)
1981-82	17.7	7.9	10.2	9.3
1982-83	12.4	1.4	5.7	3.2
1983-84	11.7	5.7	7.6	6.7
1984-85	8.9	8.0	12.0	8.6
1985-86	4.1	9.7	8.5	8.7
1986-87	6.2	9.3	10.3	9.1
1987-88	3.8	7.9	7.7	7.3
1989-89	7.9	8.7	9.5	8.7
1989-90	6.3	8.6	10.8	8.6
1990-91	4.5	9.0	7.8	8.2
Average from 1981-82 to 1990-91	8.4	7.6	9.0	7.8

Index of Industrial Production Base year: 1980-81,

Source: Economic Survey, ministry of Finance, Government of India.

The fact that the growth rebound during the first half of the 1980s was not linked to an acceleration in the development of factor inputs but rather was based on improved productivity performance, according to Ahluwaliya, was a crucial characteristic of the period.

In the second part of the pre-reform era, the industry grew by 8.4% year from 1986–1987 to 1990–1991; in 1986–1987, the growth rate was 9.1%. A minor slowdown in the growth of industrial production occurred in 1989–1990. The decline was brought largely by the mining and industrial sectors' poor performance, whereas the power sector's growth accelerated, rising from 9.5% in 1988–1989 to 10.8% in 1989–1990.

Despite an 8.2% increase in industrial production in 1990–1991 compared to an 8.6% gain the year before, the sector's growth continued to decline. Moreover, the mining and energy sectors grew more slowly. But in 1990–1991, the manufacturing sector grew at a faster pace of 9.0%, as opposed to 8.6% in 1989–1990.

The main causes of industrial recovery during 1980s were-

- New Industrial policy and liberal fiscal regime
- Contribution of the agricultural sector
- Growth of service sector
- The infrastructure factor.

Post-Reform Period:

The industrial production's average annual growth rate, which was 7.8% in the decade before the reforms, decreased to 6% from 1991-1992 to 2000-2001. Up to 2000-2001, the following were the primary reasons for the post-reform period's subpar industrial performance:

- Difficulties in obtaining funds for expansion
- Sluggish growth in exports
- Anomalies in tariff structure
- Contraction in consumers demand.
- Exposure to external competition
- Slowdown in Investment
- The infrastructure Constraints

Annual growth in rates in major sectors of Industry from 1991-92 to 2010-11 (in percent)

Period (Weight)	Mining (10.4)	Manufacturing (79.4)	Electricity (10.2)	General (100)
1991-92	0.6	-0.8	8.5	0.6
1992-93	0.5	2.2	5.0	2.3
1993-94	3.5	6.1	7.4	6.0
1994-95	9.8	9.1	8.5	9.1
1995-96	9.7	14.1	8.1	13.0
1996-97	-1.9	7.3	4.0	6.1
1997-98	6.9	6.7	6.6	6.7
1998-99	-0.8	4.4	6.5	4.1
1999-00	1.0	7.1	7.3	6.7
2000-01	2.8	5.3	4.0	5.0
2001-02	1.2	2.9	3.1	2.7

2002-03	5.8	6.0	3.2	5.7
2003-04	5.2	7.4	5.1	7.0
2004-05	4.4	9.2	5.2	8.4
2005-06	1.0	9.1	5.2	8.2
2006-07	5.4	12.5	7.2	11.6
2007-08	5.1	9.0	6.4	8.5
2008-09	2.6	2.5	2.7	2.8
2009-10	9.7	10.8	6.0	10.3
2010-11	5.2	9.0	5.5	8.2
Average from 1991-92 to 2010-11	3.9	7.0	5.8	6.7

Source: Economic Survey, ministry of Finance, Government of India

The growth rate of industrial production in 2008–2009 was considerably slowed, coming in at just 2.8%, as a result of the global economic slump. The majority of industrial activity sectors saw a decline once more in 2009–2010, notwithstanding an acceleration in industrial growth. As we can see, industrial growth has also decreased in 2017.

Evaluation of New Industrial Policy of 1991:

Positive Effects on Economy:

- Increase in production
- Increase in competition
- Increase in efficiency of public sector
- Increase in exports
- Reduction in economic burden on government
- Balanced regional development
- More significance given to small industries

Negative Effects on Economy:

- It will lead to more concentration on economic power
- It will lead to less regional balance
- It will lead to excessive competition for small sector
- It will increase unemployment
- It will threat from foreign companies
- It will lead to little research and development.

Findings and Discussion:

The overall results of India's industrial development clearly demonstrate that, in comparison to the pre-reform era, the average annual growth rate of the Indian industry has declined. The growth rate dropped to

6.7% after losing 7.8% of it. The industrial sector grew by 5.2% this year, down from 7.4% in the previous fiscal year, according to the Economic Survey 2017.

The center's demonetization campaign, which started on November 8th, had an effect on the survey. "The pace of economic activity in the last quarter of the current denomination by demonetization of high-currency and response to re-monetization," the survey, which was prepared by Arvind Subramanian, chief economic adviser to the finance ministry, and his team, states.

As new currency notes are reintroduced into circulation in the required quantities and demonetization-related policies are put into place, the growth is expected to return to normal in 2017–18.

In order to boost employment, the government has prioritized initiatives such as "Make in India," "Invest India," and "Startup India." The two main themes of the entire economic study were: a) strengthening the safety net (e.g., universal basic income) and b) helping to increase private sector investment.

Conclusion:

India's industrial sector has grown since independence, albeit at a slower rate than anticipated, especially in view of globalization. Thus, the necessity of rapid expansion cannot be overstated.

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