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Analysis of Nature and Impact of New Economic Policy on Indian Economy

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K. S. Rawal
Associate Professor,
Dept. of Economics
K.G.K. Post Graduate College, Moradabad,
M.J.P. Rohilkhand University, Bareilly,
U.P., India

Abstract

Indian economic policy was well thought and thoughtfully drafted befitting Indian Conditions in 1950-95. It had the style of Marxian Model readjusted to Indian Conditions by P.C. Mahalanobis: Public Sector took the major leads in infra-structural growth. Irrigation, power, transport, Railway, airways, technology, trade, basic industries, shipping, social services like education, health and insurance. Great achievements in the sphere of basic industries, metals, minerals, pharmaceuticals, power and technology and education were recorded in four decades. The high inflationary spiral, growing economic disparities, heavy foreign borrowing, disequilibrium in balance of payments, falling agricultural output, low exports, falling foreign currency reserves, smuggling and flight of domestic capital to foreign lands, led the Indian economy to peril, P. B. Narsimha Rao took to the policy twist towards privatization, liberalization and globalization. This paper attempts to evaluate and discuss the gains of the New Economic Policy in 1991.

Keywords: Globalization, Integration, Subsidy, Technology Promotion, Quantitative Restriction, Foreign Investment, Mergers And Acquisitions, Multinationals, Skill Development.

Introduction

Twist for NEP

Inspiration from the growth experience of tiny Asian Tigers in the regime of private free enterprise, innovative technologies foreign investments and exports growth was the model which could integrate Indian economy with the global economy under liberalization and privalization.[1]

Liberalization removed controls, removed industrial licensing, reduced the coverage of reserve industries lists, opened the participation of foreign entrepreneurs in domestic economy, removed foreign exchange controls, rendered imports free and stopped import controls and substitution policies.[2] Privatization led to transfer of major shares in industry and public sector enterprises to private entrepreneurs.[3] The free flow of capital across borders was allowed as also of labour, materials and technology.[4]

New policy brought wonderful results for the Indian Economy. The growth rate jumped from 1 percent to 5.3% in 1995 and even peaked 8.9% in 2010-11. Industrial growth rose from 5 percent to 9.5 percent during 1991-2014. Food output rose from 168 million Tons in 1990 to 305 million Tons in 2020.Foriegn trade rose from 37.3 billion dollars to 221.86 billion dollars from 1991 to 2020. foreign exchange reserves rose from 1 billion dollars to the highest ever 620 billion dollars (1991-2021).

Pangs of Change-over

Liberalization led to removal of quantitative restrictions on import of 1429 goods in which 416 were agro-goods.[5] while European and U.S. agro products are heavily subsidized (30-37 percent) Indian subsidy is hardly 5-6 percent. This causes great loss for the Indian economy. Farmers are facing heavy losses and indebtedness and are forced to abandon farming. Foreigners are interested in contract farming in Indian (Like indigo growers of champaran) and pressing for a second green revolution by using U.S. technology by U.S. and Euro-contractors hiring the Indian cheap labour on Indian lands. This is a new form of imperialism.

The small and cottage scale industrial enterprises hurt in various ways. Village works of various kinds have been adversely affected; weaving spinning, poultry, dairy, rope, basket, carten, oil extraction, soap, bidi, wooden works, ivory works, bangles, idols, shawls, zari, carpets etc. Agarbatti, food items, drinks, lassi, ice cream, furniture etc. also got hurt. Multinationals captured the clientele and made substitutes available. The domestic units have no option but to merge, liquidate, or agree for take-over. Even large-scale units like Weston TV are not able to survive in competition of MNCs.[6]

M.N.C.'s are capturing the consumer goods market and are entering retail trade. The medicine and pharmaceuticals have already skyrocketed prices.

Gradually the day to day domestic needs and food items are getting inaccessible for low income consumers.

Sectoral Investments go-up

Liberalization has expanded investment, use of modern technology and promoted scale of enterprises in areas of power, oil refining, chemical industries, metallurgy, fertilizers, cement and various other fields. In the services sector, the foreign participation in tourism, medical, education, banking, insurance etc. is expected to grow rapidly. In aviation the prospects are still brighter.[7] The employment has grown as well as the wage levels in skill based industries.

Globalization process integrates the isolated, insulated and 'inward looking' economy with the global economics and internationally spread economic enterprises.[8] Its main feature is the free flow of capital, labour and enterprise across the sovereign borders, Trade is the main instrument of globalization. Removal of quantitative import restrictions regarding 715 goods led to a rise in imports to the extent of 38 percent 1991-2004. Exports grew only 23.9 percent (2000-05). Trade deficit rose from $6 billion (90-91) to $136 billion in 2013-14 which stands around $180 billion now.Declining growth of the manufacturing sector has been attributed to the widening of the deficit.India removed the import duties or cut them low drastically. Export related imports are growing. The ratio of finished goods in total exports could merely grow 6.76 % in 2012-13. The ratio of agro-exports fell considerably.

New Cultural Inter-mix

Globalization has led to cultural change affecting rural and urban life. Living patterns, thinking, habits, priorities, dietary composition, clothing fashions etc. are undergoing a rapid change. Food habits, alcoholism, sex-rackets, sensory music instead of artistic dances, crimes promoted by T.V. channels, work-culture of companies, hotel culture, fast-food, pitza, chow mein, burgers, chewables, coca-cola, pepsy, bottled potable water, mobile phones etc. have gained popularity.

Western work-culture

Agricultural mechanization has raised demand for diesel and petrol, capital intensity is growing fast and labour is contracted for small time on work-piece basis instead of permanent employment so that the labour is always on its toes.[9] The small enterprises are closing down or merging. India has opened every corner for foreigners while Indian textiles have to face barriers and quotes.

Change of Operational Systems

Cash-credit ratio and statutory liquidity ratio have come down from 15 and 38% to 5 and 25% during 1991-2004. This affords the low interest lending by banks. The technological changes, service pattern changes, ATM, Net-banking, phone banking, computers, new instruments and schemes have saved time and resources. The banks have raised deposits of 2.38 trillion Rs. In 1990-91 to Rs. 151 trillion by march 2021. Similarly lending rose proportionately from 1991 to 2021 which has been 56.075 percent credit to GDP ratio. The scheduled banks raised profits from Rs. 803 Cr. (1991) to Rs.102252 Cr. (2021). Company profits have gone-up.

Divestment in large sector units like NALCO, Indian shipping Crop., B.P.C.L., H.P.C.L. Navelly Lignite Corp. was not justified but for meeting budgetary deficit, profit making units were sold at low rates. The abandonment of economic planning to provide employment, self-sufficiency in some sectors, removing disparities and poverty-tackling etc. Is an unhealthy sign. The official spending on new recruitments was cut drastically. Mergers, acquisitions and collaborations of industries provide impetus, and growth in designs, technology and management.

FDI and domestic investments in communications have expedited growth. E-mailing, E-Commerce, Internet, Satellite phone, Padding etc. found popularity in affluent sections. Rural masses however, still remain unserved. The problems of environmental pollution, water pollution and diversion of resources to luxuries are growing under the Multinationals, Advantages of India remains one of the plus points. India has advantages of low wages costs, high growth in IT, skilled manpower and technology centres, stability (Political and economic) and overall benefit of having a vast domestic market which attracts foreign investments.

New policy has tended to promote consumerism and to change the socio-cultural fibre. The policy must attend to urgent challenges like poverty, unemployment, ignorance, corruption, inflationary trends, skill development, innovations and upgradation of technology in each sphere. The 'New Policy' has led to large-scale investments on Infra-structure by the Government which has improved overall prospects for investments towards new industrial ventures.

Unification of Global Market shows Extent of Market Growing

FACTOR MARKET

(i) Land Market
(ii) Labour Market
(iii) Capital & Expertise
(iv) Entrepreneurial
(v) Organizational Skills
(vi) Public Goods like Environmental
(vii) Power Resources

COMMODITY MARKET

(i) Ideas, information
(ii) Consumer's Physical goods
(iii) Services
(iv) Jobs & Employment
(v) Marital and fashion market

Extension of Market leads to specialization in Each Sphere

1. Globalization is like a TIDE which lifts each boat on water and does not single out yachts.
2. Globalization occurs through large-scale MNC's which reduce the sovereign power of national Govts.
3. Tools of Globalization are:
4. Trade
5. Finance
6. Ideas, skills, organizational styles
7. Entrepreneurial expansion
8. Labour migration
9. Why Walmart is the Cheapest and is a high quality mall?
   (i) Encouraging by use of cheapest resource supplies in the entire globe under 'Multi-stage' product finishing strategy.
   (ii) Gains of large-scale and part-time elderly labour or women income supplements.
10. Depression in Advanced nations led to a trend for Global market unification.
11. Falling cost of transporting Men, Material, machines, ideas and merchandise led to the situation of Single Producer (MNC) commanding over global resources.
12. Free access to markets and access to cheaper resources, flexible manufacturing systems, outdoor production, computer aided production with precision without delay, "Intellectual constructs" separable from applied forms."
13. Rising concerns for guaranteed supply of Global Public Goods like Peace, stability terror-free society, Energy growth, climatic safety, environment, potable water, disease free world, rendered globalization in evitable. This shows a vision of new order.
14. 'Optimism' caused the removal of poverty of mankind – Europe by 1940.
15. Asia, Africa, Latin America started after 1970. China reduced it by 60% till 2000, India by 30% Africa, however, faced growth in Poverty 45%.
16. New Value-Orientation.

Gains of Globalization for India

1. Breaking domestic monopoly and fall in prices never heard in India.
2. Resources used by new investments.
3. Women gain in garments embroidery, jewelleries, crafts flowers, honey, herbs, empowerment by new income.
4. Private corporations promote commercial crops.
5. In India prices of food rose 52%, 1991-2006. India grew by 39% in power, refining, chem..Fertilizers, cement, mining.
6. Privatization of Public Sector firms led to a loss of 52000 Cr. Rs.
7. Poverty intensified in poorer groups.

8. India is placed among Low Income Nations like Angola, Burundi, Guinea, Ethiopia, Zambia, Ghana, Mali, Mianmar, Nepal, Pakistan, Rovanda, Somalia, Uganda, Yemen.
9. Success-Areas for Investments & New Technology
10. Punjab Tomato-flowers-spices under PEPSI.
11. Agri-business of Godrej Co.
12. Kisan Sansar of Tata Industries
13. Sri Ram Rural Malls.
14. Reliance Herbals
15. Mahendra Farm Technologies
16. World Agricultural trade is 60 Billion dollars. 70% of imports are by EU, US & Japan. All of these still give high subsidies to farmers to keep their selling prices competitive. India has only 6-7% subsidy.
17. India can gain by its diversity in crops meat, fruits, veg. fish, herbs, flowers, eggs. Honey.
18. Biotechnology research can help India.
19. If subsidy regime in withdrawn by Developed Nations, India has scope in cereal, meat, sugar, milk, cotton, Tobacco, fruits-veg., Textiles, foot-wear, Transport Equipment, silk, flowers, Rice etc

Status of Indian Economy with New Strengths

After enforcement of NEP and economic reforms (1991-92). The monetary and fiscal policies have undergone a substantial change. Interest rates have slided down and are globally competitive. The external value of Indian Rupee is rising against major currencies. Exports were perhaps all time high (125 billion Dollars) in 2006-07. Foreign exchange reserves have reached 612 billion dollars. The FDI which was$ 97 in 1991 increased to $81,722 million in 2020-21 and high FII investment of $2.76 trillion shows the confidence of foreign investors on Indian Industries and business. Sensex crossed the 55000 mark against 3800 in 2003. GDP is growing at a pace of 7 percent per year on an average (1991-2019). To sustain this pace of growth, our dependence on foreign capital is likely to grow. Capital flows today are due to Financial Institutional Investors (FII). The other group of investors is those who play in the capital market by 'P-Notes' and are not from FII. They play by 'Derivatives', such that the flow of FII is uncertain and it comes for earning greater interest and can go away with capital posing a liquidity crunch for the Indian economy. 'P-Note' is a participatory Note allowed by SEBI which is likely to stop-participatory notes now; If the participation is sought now, they should register as FII. Excess in flow of capital shall be checked by control on participatory Notes. The mergers and acquisitions of Indian and foreign, firms indicate a trend towards maturity and modernization besides efforts to consolidate their position in the global market.

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