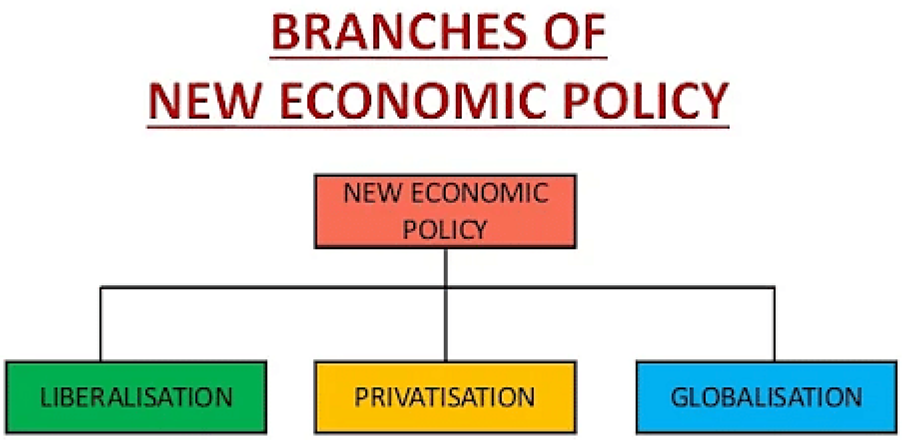
New Industrial Policy 1991 - Indian Economy Notes

The Government of India announced its **new industrial policy 1991** on July 24, 1991, with the **goal of correcting the distortions and weaknesses** in the country's industrial structure that had developed over four decades, **raising industrial efficiency to international levels, and accelerating industrial growth**. The economic reforms that were started in the early 1990s were centred on the New Industrial Policy of 1991. The new industrial policy served as the foundation for all subsequent reform initiatives such as Liberalization, Privatization, and Globalization.



(Focus Area of New Industrial Policy)

What is New Industrial Policy 1991?

- The industrial policy is a series of standards and measures implemented by the government to track the development of industries and related sectors to promote India's economic growth and development.
- The New Industrial Policy, of 1991 had the main objective of **providing facilities to market forces and increasing efficiency.**
- The government undertook it to take measures to **improve the competitiveness and capabilities of various industries**.
- The government undertook various measures to **boost the growth of industries** such as it allowed domestic firms to import better technology to improve efficiency and to have access to better technology.
- The **Foreign Direct Investment ceiling was increased** from 40% to 51% in specific sectors.

Need for New Industrial Policy in 1991

India was forced to implement a New Industrial Policy in 1991, including privatization, liberalization, and globalization for the following reasons:

- **Mounting Fiscal Deficit:** As our planned economy developed, expected spending constantly exceeded expected revenue, leading to a growing fiscal deficit. Compared to 5% in 1981–1982, it climbed to 8.5% of GDP in 1991.
- Government has to undertake interest-bearing public borrowings to cover this shortfall.
- **Adverse Balance of Payment:** A deficit in the balance of payments occurs when foreign payments exceed foreign receipts. It increased from Rs. 2214 crores in India in 1980–81 to Rs. 17367 crores in 1990–91.
- Thus, the government was forced to borrow money from outside to cover this deficit.
- **Gulf Crisis:** The Gulf Crisis refers to the 1990–1991 Iran–Iraq war. The result was a dramatic increase in petrol prices in the global market. Despite a dramatic decline in exports to Gulf countries, import costs increased significantly.
- The status of the balance of payments became much more severe. The government was obligated to announce the new industrial plan at this time.
- **Fall in Foreign Reserves:** Foreign exchange reserves briefly dipped to a level of 2400 crores in 1990–1991; at that time, there was just enough money to cover three weeks' worth of imports.
- Due to the severity of the situation, Chandra Shekhar's government was forced to mortgage its gold reserves to pay off the interest and international debts.
- India was compelled to implement a fresh set of policies to build up its foreign exchange reserves.
- **Rise in Prices:** When the inflation rate increased from 6.7% to 16.7%, the situation deteriorated significantly. Poor performance of public sector enterprises: From 1951 to 1991, the Government of India greatly enlarged the public sector, yet the results were insignificant. So, moving it to the private sector from the public sector was necessary.

Objectives of New Industrial Policy 1991

- The primary objectives of the New Industrial Policy of 1991 were to promote efficiency and provide facilities for market forces.
- The bigger roles were played by
  - L – Liberalization (Reduction in Government Control.)
  - P – Privatization (Increasing the Private Sector's Role & Scope.)

    - G – Globalisation (Economic Integration between India and the rest of the world)

Features of New Industrial Policy 1991

- **Reduction in Government's Monopoly:** Government monopoly was reduced by decreasing the number of industries reserved for the public sector from 17 (as per 1956 policy) to 8 industries such as arms and ammunition, atomic energy, coal, mineral oil, mining of iron ore, manganese ore, gold, silver, mining of copper, lead, etc.
- **Abolition of Industrial Licensing:** The Industrial Licensing Policy abolished the industrial licensing given to all industries except for the 18 industries, which was further reduced to 6 industries in 1999. These included drugs and pharmaceuticals, hazardous chemicals, explosives such as gunpowder and detonating fuses, etc.
- **Provision of Foreign Companies as a Major Stake:** It allowed foreign companies to have a majority stake in India. For example, in 47 high-priority industries, up to 51% of FDI was allowed.
- **Provision to Non-Residential Indians (NRIs):** Non-Resident Indians (NRIs) were allowed 100% equity investments on a non-repatriation basis in all activities except the negative list.
- **Internal Agreements on Foreign Technologies:** Various international agreements were made about foreign technologies. For example, permitting high-priority industries up to a lump sum payment of Rs. 1 crore, with 5% royalty for domestic sales and 8% for exports.
- **Restructuring of Portfolio Public Sector Investments:** Restructuring the portfolio of public sector investments, for example, the PSUs which were unlikely to be turned around were to be referred to the Board for Industrial and Financial Reconstruction (BIFR).
- **Removal of Prior Approval from Central Government:** To remove the requirement of prior approval of the Central Government for the establishment of new undertakings, expansion of undertakings, merger, amalgamation, etc MRTP act was to be amended.
- **Changes in the Standard for Small Units:** The criteria for a tiny unit was changed to a unit having an investment limit of Less than Rs. 5 Lakh.
- **Establishment of National Renewal Fund:** As per this policy, the government announced the establishment of a National Renewal Fund (NRF) to ensure a social safety net for labor.

Impact of New Industrial Policy 1991

- **Removal of Restrictions Regarding License, Permit, And Quota Raj:** It removed the restrictions experienced during the license, permit, and quota raj. It intended to liberalize the economy by removing bureaucratic restrictions on industrial growth.
- **Public Sector's Role And Disinvestment:** The role of the public sector was decreased and two sectors were reserved for the public. The process of disinvestment was started in PSUs.
- **Entry of Multi-National Companies:** By removing restrictions it enabled the entry of multinational companies, privatization, removal of asset limits on MRTP companies, liberal licensing policy, etc.
- **Increment in Domestic And Foreign Investment:** Domestic, as well as foreign investment, increased in almost every sector of the economy.
- **Increment in Exports And Related Activities:** Increased efforts were undertaken to increase exports such as Export Oriented Units (EOU), Export Processing Zones (EPZ), Agri-Export Zones (AEZ), etc emerged.
- **Establishment of A Separate Ministry:** To better resolve the issues of MSMEs in 2006 a new act and separate ministry were established.

Conclusion

Various steps undertaken by the New Industrial Policy 1991 led to the abolition of industrial licensing, dismantling of price controls, dilution of reservations for small-scale industries and the virtual abolition of the monopolies law, relaxation of restrictions on foreign investment, etc. All such steps helped in the removal of restrictions and benefitted in economic growth and development of the country.