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Impact of new industrial policy on Indian economy with special reference to industrial sector

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Abstract
Industrialization is the main condition for the development or growth of Indian economy because industrial sector plays a pivotal role in the economy, they can solve the problems of general poverty, unemployment, backwardness, low productivity and low standard of living etc. India began liberalizing its economy with the objective of making Indian industries more efficient and globally competitive. Since the early eighties, various attempts have been made to liberalize the industrial policy framework. The new industrial policy of 1991 has entirely liberalized the industrial policy itself. Government has pursuing three sets of reforms: One, deregulation, delicensing, decontrol and debureaucratisation of industrial licensing system; two, liberalizing foreign trade and currency transactions and three, instituting several measures to facilitate foreign direct investment inflows. All these measures were launched in the year 1991 and since then, further liberalization have been introduced every year with each new budget. This paper studies the impact of new industrial policy and new provisions on industrial performance.

Keywords: industrialization, liberalization, globalization, economic reforms, new industrial policy, industrial licensing

Introduction
Globalization has brought in border less economy into formation mainly due to liberal economic policies and opening up of domestic economies to foreign inflow of capital both inequity and direct investment form. This has had an impact on the growth and structure of domestic industrial structure especially in developing economies like India. India n economy, after the 1931 fiscal crisis, started to adopt the economic reforms with the objective of reviving the economy from slow growth to a market driven economy with the objective of reviving the economy with optimum utilization of there sources. This was possible through rpid industrialization. It plays a vital role in development of developing countries because they can solve their problems of general poverty, unemployment, backwardness, low productivity and low standard of living etc. The competition has widened the area in all directions i.e not at national level but also at regional level. The ultimate aim of economic reforms were to make Indian Industrial Sector in general and small scale industrial sector in particular, more virtuous, upgraded with new technologies, with the assurance that these changes would make able this sector to achieve higher and sustainable growth both at national and regional level. In 1951 India's Prime Minister Jawaharlal Neheru announced that India had to become industrialized, and that as fast as possible. But India has yet to become a manufacturing power house like China. The First Industrial Policy was framed in 1948, followed by the Industrial Policy Resolution of 1956.The Industrial Policy Resolution of 1956 gave direction to the development of Industry till 1973 which resulted in sound base of industrial development in the country. After 1973 the Industrial Policy was amended in 1977 with the objective of accelerating the pace of industrial growth, increasing productivity and income of industrial workers, promoting technological self-reliance and increase in the level of employment. After 1977, several amendments were made in the industrial policy but the major landmark change came in 1991 when New Industrial Policy as part of new economic Policy was introduced. This paper studies the impact of new industrial policy and new provisions on industrial performance.

Literature Review
Bargal *et al*. examined the causal relationship among the three variables GDP, SSI output and SSI exports and also have compared the performance parameters of SSIs in the pre and post liberalization era. The study found that the annual average growth rate of different parameters of SSIs have declined in the period of nineties vis-à-vis the pre-reform years. There is an absence of any lead-lag causal relationship between exports and production in small-scale sector and GDP of Indian economy.
Singh *et al*. analyzed the performance of Small scale industry in India and focused on policy changes which have opened new opportunities for this sector. Their study concluded that SSI sector has made good progress in terms of number of SSI units, production & employment levels Bala Subrahmanya highlighted the major impact of globalization and domestic reforms on small scale industries sector. The study stated that small industry had suffered in terms of growth, employment, output and exports. The Researcher highlighted that the policy changes had also thrown open new opportunities and markets for the small scale industries sector.
Dixit and Pandey applied co-integration analysis to examine the causal relationship between SMEs output, exports, employment, number of SMEs and their fixed investment and India's GDP, total exports and employment (public and private) for the period 1973-74 to 2006-07. Their study revealed the positive causality between SMEs output and

India's GDP.

Objectives of the Study
- To find out whether industrial sector in India has developed after new economic policy or not.
- To identify the shortcomings of industrial growth during the post liberalization phase.
- To study the provisions of new industrial policy

Research Methodology
The present work is a blend of descriptive and exploratory research work.

Sources of Data
The data is purely secondary and has collected through various websites and journals, as well as published books.

Industrial Policy
The Industrial policy means the procedures, principles, policies, rules and regulations which control the Industrial undertaking of the country and pattern of industrialization. It explains the approach of Government in context to the development of industrial sector.

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

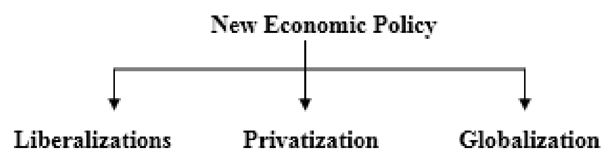
New Economic Policy of 1991
The year 1991 is an important landmark in the economic history of post-independent India. The country went through a severe economic crisis triggered by a serious balance of payments situation. The crisis was covered into an opportunity to introduce some fundamental changes in the content and approach to economic policy. The response to the crisis was to put in place a set of policies aimed at stabilization and structural reform. While the stabilization policies were aimed at correcting the weaknesses that had developed on the fiscal and the balance of payments fronts, the structural reforms sought to remove the rigidities that had entered into the various segments of Indian economy. Former Manmohan Singh is considered to be the father of New Economic Policy of India.

Main Objectives of New Economic Policy- 1991, July 24.
- To plunge Indian economy in to the area of Globalization and to give it a new thrust on market orientation.
- The New economic policy wanted to permit the international flow of goods, services, capital, human resources and technology, without many restrictions.
- It wanted to achieve economic stabilization and to convert the economic in to a market economy by removing all kinds of unnecessary restrictions.
- It intended to move towards higher economic growth rate and to build sufficient foreign exchange reserves.
- It intended to bring down the rate of inflation and to remove imbalances in payment.

Beginning with mid-1991, the Government has made some radical changes in its policies bearing on trade, foreign investment exchange rate, industry, fiscal discipline etc. The various elements, when put together, stitute an economic policy which marks a big departure from what has gone before.
The thurst of New Economic Policy has towards creating a more competitive environment in the economy as a means to improving the productivity and efficiency of the system. This was to be achieved by removing the barriers to entry and the restrictions on the growth of firms.

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 Adopted In the New Economic Policy
Due to various controls, the economy became defective. The Entrepreneurs were not willing to establish new industries (because laws like MRTP Act 1969 de-motivated entrepreneurs). Corruption, undue delays and inefficiency risen due to these controls. Rate of economic growth of the economy came down. So in such a scenario economic reforms were introduced to reduce the restrictions imposed on the economy.



Liberalization
Previously private sector had to obtain license from Govt. for starting a new venture. In this policy private sector has been freed from licensing and other restrictions. Industrial licensing is necessary for the following industries-
- Drugs
- Cigarette
- Liquor
- Defence equipment
- Industrial explosives
- Hazardous chemicals.

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

Privatization
Privatization means permitting the private sector to set up industries which were previously reserved for the public

sector. Under this policy many PSU's were sold to private sector.It is the process of involving the private sector in the ownership of Public Sector Units (PSUs).

Steps taken for Privatization

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

Globalization

Globalization means to make Global or worldwide, otherwise taking into consideration the whole world. Broadly speaking, Globalization means the interaction of the domestic economy with the rest of the world with regard to foreign investment, trade, production and financial matters.

Steps taken for Globalization-

- 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

In 1951, India adopted a plan for a growth and development. According to this plan, state was exclusively responsible for establishment of new undertakings. It means structural change of the economy in the favour of the industrial sector. After independence India wants a rapid and balance growth and development in economy. To develop and for the growth of Indian ecoomy Industrial development is required as Industries plays a significant role in economy of India. By Industrialisation and its development provides various types of benefits like-

- Higher Employment
- Regional Development
- Growth in National Income

Performance of Indian Industry in Pre and Post Reform Period

A) Per-reform Period (1981-1982 to 1990-1991)

The period of 1980s can be termed as a period of industrial recovery. This is clearly brought out by a study of the Index of Industrial Production (Base 1980-81).Rates of industrial growth based on this index are presented below-

Annual growth in rates in major sectors of Industry from 1981-82 to 1990-91(in percent)

Table 1

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
1988-89	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

According to Ahluwaliya, a very important aspect of the growth revival during the first half of the 1980s was that it was not associated with an accelerating in the growth of factor inputs but was, rather, based on better productivity performance.

In the second half of pre reform period (i.e 1986-87 to 1990-91), industry grew 8.4 per cent per annum, in which growth rate of 1986-87 was 9.1 per cent. There was a mild deceleration in the growth of industrial production in 1989-90.The deceleration was due to lower performance by the manufacturing and mining sector while the electricity sector accelerated its growth from 9.5 per cent in 1988-89 to 10.8 per cent in 1989-90.Growth of the Industrial production continued to be on the deceleration track during 1990-91, also with the growth of 8.2 per cent during the year compared with 8.6 per ent in the previous year. The deceleration in growth was continued in the mining and electricity sectors also. The manufacturing sector however, recorded an accelerated growth of 9.0 per cent in 1990-91 asahainst 8.6 per cent in 1989-90.

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.

B) Post-Reform Period

The average annual growth rate of industrial production which was 7.8 per cent in the pre-reform decade fell to 6 per cent during 1991-92 to 2000-01.The main causes of unsatisfactory industrial performance in post reform period upto 2000-01 were-

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

Annual growth in rates in major sectors of Industry from 1991-92 to2010-11 (in percent)

Table 2

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

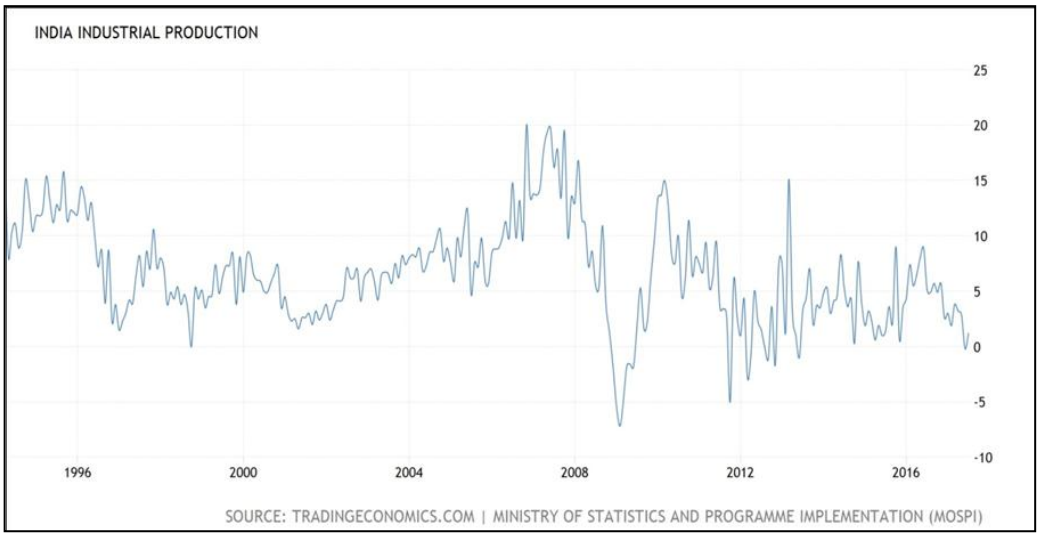


Fig 1

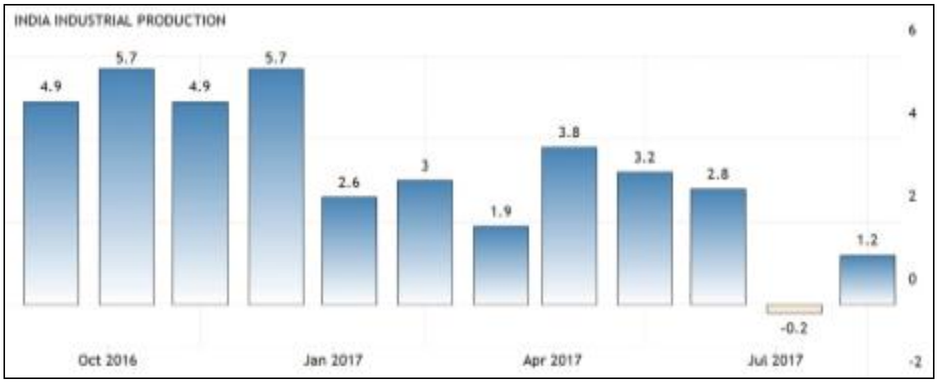


Fig 2

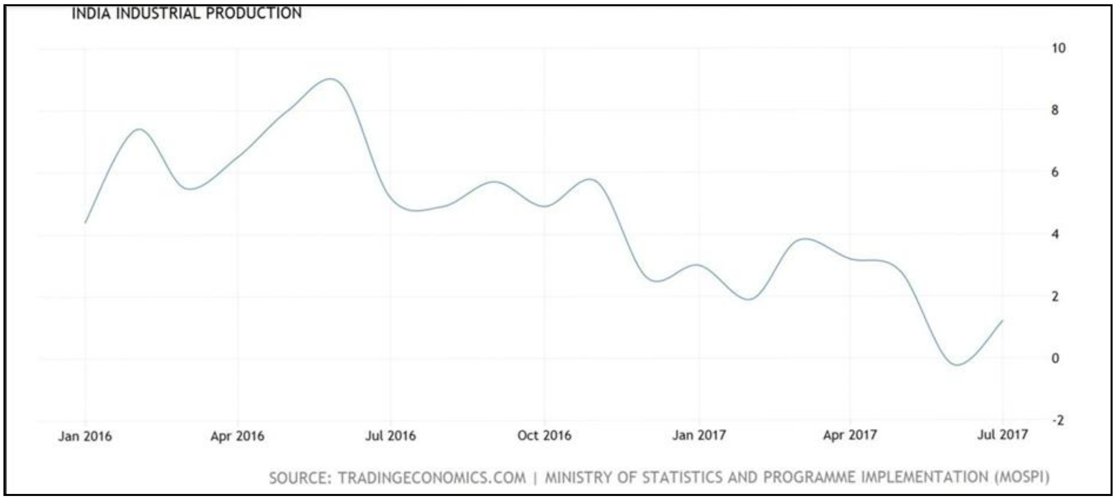


Fig 3

The year 2008-09 witnessed marked slowdown due to global recession and the rate of growth of industrial production in this year fell to just 2.8 per cent. Though industrial growth increased in 2009-10 but again deceleration was seen across most sectors of industrial activity. In 2017, we can observe that industrial growth has also declined.

Critical Evaluation of New Industrial Policy of 1991:
1. Advantages

- 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

2. Shortcomings of new industrial policy of 1991

- 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.

Results & Discussion

The summary results of industrial development in India clearly indicate that the average annual growth rate of Indian Industry has declined in the post reform period as compared with the pre reform period. The fall in growth rate was 7.8 per cent to 6.7 per cent.

The Economic Survey 2017, a decline in the industrial sector's growth to 5.2 per cent in the current fiscal year from 7.4 per cent in the last year.

The demonetization drive set in motion by the centre on 8 November had its overhang on the survey. "In the last quarter of the current year, the pace of economic activity can be affected by demonetization of high-denomination currency and response to the gradual re-monetisation," stated the survey, prepared by chief economic adviser Arvind Subramanian and his team in the finance ministry.

For 2017-18, it is expected that the growth would return to normal as the new currency notes in required quantities come back into circulation and as follow-up actions to demonetization are taken.

The Government has been focusing on schemes such as 'Make in India', 'Invest India', 'Startup India' to boost job creation.

Overall the economic survey stressed two themes-

a) The creation of a more robust safety net like a universal basic income,
b) Helping revive private sector investments.

Conclusion

It may be concluded that although the industrial sector of India has grown after independence, the rate is below expectation, especially after globalization. Thus, the need for accelerated growth can hardly be overemphasized.

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