European Economic Letters
ISSN 2323-5233
Vol 13, Issue 5 (2023)
http://eelet.org.uk

A critical evaluation of Basics of New Industrial Policy 1991 on Foreign Direct Investment

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Abstract

In 1991, the financial policies of the Indian economy underwent a significant shift with the introduction of LPG (Liberalisation, Privatisation and Globalisation). On July 24, 1991, the government formulated a new economic policy and unveiled it. The goal of implementing this programme was to strengthen and expand the Indian economy. The nation had a serious financial crisis in 1990, which prompted the implementation of this legislation as a precautionary measure. The government of India established the "New Industrial Policy" (NIP) in 1991 with the goal of liberalising the Indian economy. The changes had a major impact on the business, manufacturing, and financial services industries, as well as on general economic growth.

Keywords: Liberalisation, Privatisation and Globalisation.

Introduction

The official strategic endeavour of a nation to promote the development and expansion of the secondary sector of the economy is known as its INDUSTRIAL POLICY plan, or IP for short. The manufacturing and construction industries are included in the economy's secondary sector, sometimes known as the industrial sector, as they are responsible for producing final, physical goods. It creates completed items using the primary sector's output. In India, the industrial sector employs 17% of the labour force and generates 27.6% of the country's GDP. In the earlier policy the main objectives of Industrial Policy was to controlling and managing the industrial sector. For example, placed more focus on bolstering the public sector, averting economic concentration, lowering economic inequality, and increasing employment. In the NIP, the top priority has been accorded to industrial efficiency, growth & international competitiveness. The earlier industrial policies had made the public sector the main instrument of industrial growth. The earlier industrial policies had made the public sector the main instrument of industrial growth. In the NIP, the private sector has been made the main instrument for the future industrial growth of the economy. The deregulation of international investment is another noteworthy aspect of NIP. Previously, foreign investment was only permitted with 40% equity and on a selective basis. With 51% shareholding, the NIP encouraged direct foreign investment. This has been carried out in light of the necessity for Indian industry to become global and the benefit of new technology transfer. Globalisation is the process of uniting a nation's economy with that of other nations while allowing for unrestricted global movement of humans as well as the free flow of capital and economic activity.

Liberalization

India started financial reform in 1991, and the country's liberalisation shows that economic transformation is still ongoing. Liberalisation and privatisation allude to a loosening of governmental regulations; they also suggest the elimination of the government's authority over the state. Businesses and industries are given more freedom to make decisions, and government intervention is eliminated. Policymakers believed that the forces of supply and demand would improve market efficiency and spur economic growth. By reducing governmental supervision, new changes in the banking industry were implemented domestically. The main objectives of liberalisation policy are;

- To expand the competition among domestic business.
- Promotion of foreign trade and regulation of export and import.
- Development of countries global market.

- Reduction in countries debt.
- Private sector is encouraged to actively participate in the economy’s expansion.
- More competition to be introduced in the economy for increasing efficiency.

The liberalisation policy's implementation in India had an impact on a number of industries. A few economic improvements were included in this strategy as well. The Government of India started the following measures as part of its liberalisation strategy.

- Deregulations of the Industrial sector.
- Financial sector reforms.
- Tax reforms.
- Foreign exchange reforms
- Trade and investment Policy reforms
- External sector reforms
- Foreign exchange reforms
- Foreign trade policy reforms

Every time a policy is implemented, the market experiences some favourable modifications. The Indian economy was the driving force behind the introduction of LPG, and this reform was effective as the country's economy expanded quickly. This reform has several great aspects, but it also has significant drawbacks.

Advantages of liberalisation

Flow of Capital: As a result of liberalisation, the flow of money has improved and it is now less expensive for businesses to obtain cash from investors. Their cheap cost of capital allows them to take on profitable initiatives, something that was not viable before to liberalisation due to greater capital costs.

Stock market performance: The stock market is a real-time marketplace for the trading of business securities. The stock market gains value whenever a nation's laws and tax laws are loosened.

FDI introduction in the banking sector: The government's interest in banks and insurance businesses has decreased as a result of FDI approval.

Decreased political risk: Following the implementation of India's liberalisation policy, there was a decrease in political risk pertaining to investors. Liberalisation makes it easier to attract foreign policies. A robust legal framework in the nation facilitates easy commercial operations.

Investors profit from diversification: In the liberalised economy, investors have the advantage of placing their assets into a diverse portfolio.

Impact on agriculture: Although there have been many changes in the agricultural sector, the government still maintains significant influence over the whole agricultural process, from production to distribution, thus the effects of liberalisation are still hidden.

Disadvantages of liberalisation

Declining economy: The whole Indian economy is highly unstable as a result of the redistribution of economic power.

The threat posed by multinational corporations (MNCs): Before 1991, MNCs had no presence in the Indian market. Prior to reform, public sector businesses dominated the market. The liberalisation of the Indian market has led to heightened competition. Due to their extensive operations across several nations, multinational corporations pose a danger to Indian indigenous businesses.

The impact of technology: The advancement of cutting-edge technology has compelled small and medium-sized businesses in India to embrace these developments.

Mergers and Acquisitions: These days, mergers and acquisitions are happening at a very quick pace. These days, it's common for small businesses to merge with larger ones.

Privatisation

The transfer of ownership from government-owned sectors to private persons or companies that prioritise profit maximisation is known as privatisation. When the government transfers its rights to privately held firms, there is a change of ownership. Numerous issues, including low productivity, losses, labour issues, and political party meddling, caused the government to confront delays in project completion. In 1991, the government launched the National Industrial Policy as a means of resolving this problem.

Privatisation is also known as disinvestment. Disinvestment's primary goal was to raise money by selling PSUs. The primary goals of disinvestment were to increase PSU efficiency, boost competitiveness, increase customer satisfaction, and lessen political meddling. The main objectives of privatisation policy are;

- A strong base will be provided to FDI inflow.
- Enhancement in FDI inflow will improve the economy.
- PSUs are being given freedom to take decisions to improve its efficiency.
- Some companies were categorized as Navratna and Maharatna.

Government firms can become private corporations in one of two ways. First one is, transfer of ownership- The government taking away management authority from public sector firms. Another is disinvestment- PSUs sell a portion of their shares to private companies. Equity is sold in order to strengthen financial discipline.

Generally following are the methods of privatization;

- Selling of shares to the public.
- Auction is done and the public is invited to participate.
- Invitation of tenders
- Negotiation is done
- Control is transferred from the state

Advantages of privatization

Performance improvement: Private businesses aim to maximise profits at any costs. Less political meddling is occurring. Because rewards are awarded to employees in private organisations depending on their performance, each employee strives to work harder and more productively.

Less political meddling: Public sector enterprises have political participation, whereas private companies are not subject to government control. The private players' sole goal is to maximise their profits.

Investors: To operate their businesses, private companies seek out funding from investors. The company operates under pressure as the shareholders closely monitor its operations and they want to see strong market performance.

Increased competition: Private corporations must actively participate in the workforce and contend with market rivalry, whereas public companies have a monopoly and don't have to deal with much competition. For instance, there is more rivalry these days for phone, gas and energy providers.

Privatisation does not, however, always result in more competition; it depends entirely on the structure of the market. There is no rivalry between the tap water and train industries.

Revenue-raising through the sale: The government makes money through the sale of firms it owns. The government receives one-time money from the company's privatisation.

Disadvantages of privatization

Natural monopoly: When there is just one company active in the industry, a natural monopoly occurs. When it comes to tap water, which is a natural resource, there is no rivalry because no other businesses are in business. Privatisation will result in the creation of a private monopoly, and the business will take advantage of the consumer by establishing exorbitant prices.

Public interest: Some sectors of the economy, including the healthcare and educational sectors, serve the general welfare. People will have issues if these firms are privatised since their goal shouldn't be to maximise profits.

Dividend loss: Private businesses in the UK are doing better financially. Since the dividend goes to the stockholders in this case, the government loses out.

Decentralisation of industries: The privatisation of the railway in the United Kingdom caused the train network to fragment. Nobody assumed responsibility for safety or took the chance of the Hatfield train catastrophe. Purchasing train tickets was more difficult.

Short-term profit: Private businesses want to make investments for quick returns. They steer clear of funding long-term initiatives. Using the United Kingdom as an example, the firms there are not willing to invest in new projects and instead rely on their current facilities for energy.

Globalisation

Globalisation is the process by which the economies of any nation are integrated with those of the rest of the globe. The world is becoming smaller and smaller in the age of globalisation. Globalisation leads to a rise in commerce, cultural, and economic connectivity. It's a procedure that enables global business operations for the company. People may now access the entire world thanks to globalisation.

Even after gaining independence, communist economic principles were still used in the Indian economy. The Indian Prime Minister, Rajiv Gandhi, launched several economic initiatives in 1980 to improve the country's economic performance. India experienced an economic crisis in 1991, with only one week's worth of money left over for payments.

To boost the economy, LPG was introduced and policy changes were initiated by Prime Minister T P.V. Narasimha Rao and Finance Minister Dr. Manmohan Singh.

Recommendations of Narasimha Rao Committee

Security restrictions were implemented with the SEBI Act of 1992. SEBI was required to keep track of all investor data and maintain oversight over the capital market. The pricing and quantity of stocks that corporations were required to issue on the market were set by SEBI.In 1994, the National Stock Exchange was founded. Share transactions were now to be completed digitally. The nation's stock exchange was reorganised as a result. By 1996, one of the largest stock exchange markets was in India. FDI was pushed as a means of capital raising. The percentage of international money contributed ranged from 50% to 40%. High priority industries were permitted to have 100% foreign ownership. The rupee, an Indian currency, was made exchangeable. Additionally, the charges were reduced from 40% to 25%. FDI was permitted in 35 sectors. Fast growth in the Indian economy was facilitated by all these improvements. Only a few industries required licences, and even the licence raj was repealed. Given that India is a developing market, the changes helped the country's economy to compete with that of established countries.

Advantages of Globalisation

Job opportunities: Special Economic zones were established under the new legislation. As a result, there were more employment. Another advantage is that work is inexpensive in India because of the country's enormous population. Employment is also being created in export processing zones.

Salary: Indian domestic firms pay its workers the same as international companies, but experienced and knowledgeable workers receive higher salaries from overseas companies.

Living standards: As employment has increased, people's lifestyles have evolved. People now have more purchasing power, which raises the level of living.

Market expansion: Following globalisation, businesses are now able to grow in scale.

Infrastructure Development: The introduction of globalisation led to the development of infrastructure. As an illustration, technology is advancing quickly these days, and communication is becoming quicker.

The emergence of healthy competition: The integration of the global market lowers manufacturing costs. Additionally, it shortens processing times and raises corporate standards.

Disadvantages of Globalisation

Inequality: which has been noted from its inception. Urban-rural gap has widened. There are still individuals in the world who lack access to even the most basic of technologies. Many people do not profit from the globalised market's advantages.

Inflation: The rising cost of commodities is a result of the growing demand for food and energy. Many nations are experiencing inflation, commonly referred to as inflation of food prices.

External shocks to the economy: nations are more interconnected. Therefore, any changes in one country's economy have an effect on the rest of the world. For instance, the global effects of the 2008 U.S. recession are felt worldwide.

Dangers to the Global Commons: The environment is suffering harm. Land degradation has risen as a result of globalisation and deforestation. Biodiversity is experiencing an impact.

Standardisation: Developing nations are becoming less diverse in terms of both economy and culture. International brands are taking over the home market, while emerging nations' cultures are evolving at the same time.

Conclusion

In the Fiscal Year 2021–2022, India saw the largest-ever yearly FDI influx of USD 83.57 billion. Despite the COVID-19 epidemic and military operation in Ukraine, India saw a meagre 45.15 billion USD in FDI influx in 2014–2015, compared to the largest annual FDI inflow of USD 83.57 billion reported for the financial year 2021–2022, which overtook last year's FDI by USD 1.60 billion. India received USD 4.3 billion in FDI in FY03–04, but since then, the amount has climbed 20-fold. Furthermore, India is quickly becoming a desirable destination for international industrial investments. In FY 2021–22, FDI equity inflow into the manufacturing sector surged by 76% to USD 21.34 billion, up from USD 12.09 billion in FY 2020–21.

The prevailing patterns in India's inflow of Foreign Direct Investment serve as evidence of the country's appeal as an investment destination for international investors. It should be highlighted that FDI inflow to India has grown by 23% post-Covid (USD 171.84 billion from March 2020 to March 2022) compared to FDI inflow recorded prior to Covid (USD 141.10 billion from February 2018 to February 2020). For the FY 2021–2022 period, "Singapore" is at the top of the list of investor nations with FDI equity inflow, with 27%, followed by the United States of America (18%) and Mauritius (16%).With almost a 25% stake, "Computer Software & Hardware" has emerged as the top sector receiving FDI equity inflow for FY 2021–2022, ahead of the services sector (12%) and the automobile industry (12%), in that order. Karnataka (53%), Delhi (17%), and Maharashtra (17%) are the top three states receiving FDI equity inflow under the sector "Computer Software & Hardware" in FY 2021–2022. With 38% of the total FDI equity inflow recorded for FY 2021–2022, Karnataka is the leading receiving state, followed by Delhi (14%), Maharashtra (26%) and other states. and Maharashtra (17%) during FY 2021-22. With 38% of the total FDI equity inflow recorded for FY 2021–2022, Karnataka is the leading receiving state, followed by Delhi (14%), Maharashtra (26%) and other states. The sectors of "Computer Software & Hardware" (35%), "Automotive Industry" (20%), and "Education" (12%) have been reported to have received the majority of Karnataka's equity inflow during the fiscal year 2021–2022.

The government's actions over the past eight years have paid off, as seen by the record-breaking amounts of foreign direct investment (FDI) coming into the nation. To make sure that India continues to be a desirable location for investors, the government periodically examines the FDI policy and makes important modifications. The government has implemented an open and liberal FDI policy, with the majority of industries accepting FDI through the automatic method. Reforms have lately been implemented in a number of industries, including coal mining, contract manufacturing, digital media, single brand retail trading, civil aviation, defence, insurance, and telecom, in an effort to further liberalise and streamline FDI policy in order to facilitate business transactions and draw in investments.

Table 1: FDI Inflows

Sl. No.	Financial Year	Amount of FDI inflows (in USD billion)
1.	2018-19	62.00
2.	2019-20	74.39
3.	2020-21	81.97
4.	2021-22	83.57

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http://eelet.org.uk

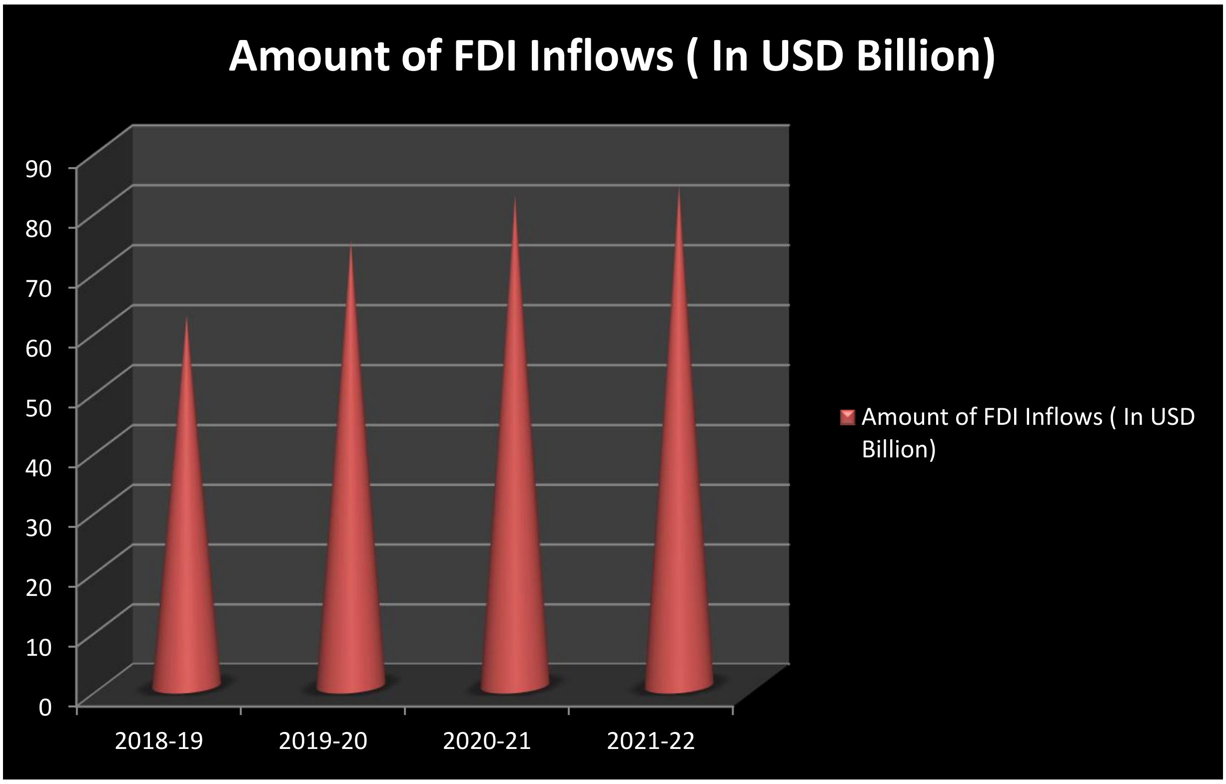

Figure 1: FDI Inflows

TABLE 2: DPIIT's – FINANCIAL YEAR-WISE FDI EQUITY INFLOW

(As per DPIIT's FDI data base – equity capital components only)

S. No.	Financial Year (April – March)	Amount of FDI Equity inflow		% age growth overprevious year (in terms of USD)
FINANCIAL YEAR 2000-01 TO 2023-24 (upto Sept.)		*In INR Crores*	*In USD Million*	
1	2000-01	10,733	2,463	-
2	2001-02	18,654	4,065	(+) 65 %
3	2002-03	12,871	2,705	(-) 33 %
4	2003-04	10,064	2,188	(-) 19 %
5	2004-05	14,653	3,219	(+) 47 %
6	2005-06	24,584	5,540	(+) 72 %
7	2006-07	56,390	12,492	(+) 125 %
8	2007-08	98,642	24,575	(+) 97 %

9	2008-09	142,829	31,396	(+) 28 %
10	2009-10	123,120	25,834	(-) 18 %
11	2010-11	97,320	21,383	(-) 17 %
12	2011-12 ^	165,146	35,121	(+) 64 %
13	2012-13	121,907	22,423	(-) 36 %
14	2013-14	147,518	24,299	(+) 8%
15	2014-15	181,682	29,737	(+) 22%
16	2015-16	262,322	40,001	(+) 35%
17	2016-17	291,696	43,478	(+) 9%
18	2017-18	288,889	44,857	(+) 3%
19	2018-19	309,867	44,366	(-) 1%
20	2019–20	353,557	49,977	(+) 13%
21	2020-21	442,569	59,636	(+) 19%
22	2021-22	437,188	58,773	(-) 1%
23	2022-23	367,435	46,034	(-) 22%
24	2023-24 (upto September, 23)	168,875	20,488	
CUMULATIVE TOTAL (from April, 2000 to Sept. 2023)		**41,48,511**	**655,050**	

Source: dpiit.gov.in

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