Academic Script

INTRODUCTION

Most of the underdeveloped countries suffer from low level of income and low level of capital accumulation. However, despite this shortage of capital, these countries have developed a strong urge for industrialisation and economic development. India launched upon a programme of industrialisation during the second plan under Industrial Policy Resolution of 1956.Due to such state controlled system of licenses the domestic resources to carry out this programme were insufficient, the country had to depend on foreign capital.

Industry

New Industrial Policy was announced by the government of India in July 1991.The new policy contained policy directions for reforms in the sphere of Liberalisation, Privatisation and Globalisation(LPG). It enlarged the scope of private sector participation to almost all industrial sectors.
The 1991 industrial policy contained the root of the liberalization, privatization and globalization drive made in the country in the later period. The policy has brought changes in the following aspects of industrial regulation:

1. Industrial delicensing
2. Deregulation of the industrial sector
3. Public sector policy (de-reservation and reform of PSEs)
4. Abolition of MRTP Act
5. Foreign investment policy and foreign technology policy.

1. Industrial delicensing policy: the most important part of the new industrial policy of 1991 was the end of the industrial licensing or the license raj. Under the industrial licensing policies, private sector firms have to secure licenses to start an industry. This has created long delays in the start-up of industries. It has reduced industrial licensing to fifteen sectors. Now only 13 sector need license for starting an industrial operation.

2. Deregulation of the industrial sector: Pre-reforms, the public sector had given reservation especially in the capital goods and key industries. Under industrial deregulation, most of the industrial sectors were open to the private sector as well. Most of the industrial sectors were reserved to the public sector. Under the new industrial policy, only three sectors- atomic energy, mining and railways will continue as reserved for public sector. All other sectors have been opened for private sector participation.

3. Reforms related to the Public sector enterprises: reforms in the public sector were aimed at enhancing efficiency and competitiveness of the sector. The government identified strategic and priority areas for the public sector to concentrate. Similarly, loss making PSUs were sold to the private sector. The government has adopted disinvestment policy for the restructuring of the public sector in the country and at the same time autonomy has been given to PSU boards for efficient functioning.

4. Foreign investment policy: another major feature of the economic reform measure was it has opened gates to foreign investment and foreign technology. This measure has enhanced the industrial competition and improved business environment in the country. Foreign investment including Foreign direct investment (FDI), Foreign portfolio investment(FPI) and loan capital has also introduced in the country to attract foreign capital.

5. Abolition of MRTP Act: The New Industrial Policy of 1991 has abolished the Monopoly and Restricted Trade Practice Act. In 2010, the Competition Commission has emerged as the watchdog in monitoring competitive practices in the economy.
The industrial policy of 1991 is one of the biggest reforms introduced in Indian economy since independence. The policy caused big changes including emergence of a strong and competitive private sector and a sizable number of foreign companies in India.

Growth and Structure of India's Foreign Trade since 1990

Commencing July 1991, the Government of India has initiated a number of measures to open up the foreign trade sector and has announced massive import liberalisation measures over the last decade. These include devaluation of the rupee in July 1991 and subsequently its depreciation against the currencies of leading industrialised countries, introduction of the convertibility of rupee first on trade account and then for all current account transactions, liberalisation of import regime, substantial reduction in customs tariff rates, decanalising of many items of trade wide ranging measures to give a thrust to exports,etc.In fact, the trade policy reforms initiated in 1991 have drastically changed the scenario and have resulted in a shift from the inward-oriented policy of the past to an outward-oriented policy.

Expansion of Foreign Trade

India's trade has increased significantly in the post- reform period. In absolute terms, the trade volume rose from US $ 42.2 billion ($ 18.1 billion exports and $24.1 billion imports) in 1990-91 to US $ 762.70 billion ($ 312.62 billion exports and $ 450.08 billion imports) in 2013-14. However, since 1992-93 the rate of increase of imports has been consistently higher than the rate of increase of exports excepting 1993 2000-01 2002-03, 2010-11 and 2013-14. As a result, trade deficit increased substantially from $1.5 billion in 1991-92 and $3.3 billion in 1992-93 to as high as $12.8 billion in 1999-2000 and further to $190.34 billion in 2012-13 (it fell to $137.46 billion in 2013-14).

Important observations regarding India's trade performance during the post-reform period are as follows:

I. Reflecting the liberalisation of trade regime and the increasing external openness of the economy, India's trade-GDP ratio showed substantial improvements in the post- 1991 period as compared with the earlier decades. The export-GDP ratio rose from 4.5 per cent in 1970s (1970- 71 to 1979-80) and 4.6 per cent in 1980s (1980-81 to 1989-90) rose further to 17.0 per cent in 2013-14. The import-GDP ratio also rose from 5.3 in 1970s to 7.2 per cent in 1980s and further to 9.3 per cent in 1990s. In 2013-14, the import-GDP ratio was 24.8 per cent. These data indicate an increasing openness of the Indian economy in the period since 1991 and given India's own economic past represents a significant change in its relationship with the world economy.

2. The export-import ratio (which indicates the proportion of imports that can be financed from export earnings) increased substantially from 64.0 per cent during 1980s to 84.9 per cent during 1990s and stood at 81.7 per cent in 2003-04. However, it deteriorated thereafter and fell to 75 per cent in 2004-05 and 69 per cent in 2013-14

3. Both export growth and import growth rates registered an increase in the post-reform period vis-à-vis 1980's. For instance, the average annual export growth rate rose from 8.1 per cent in 1980s to 8.6 per cent in 1990s and further to 17.2 per cent over the period 2000-01 to 2013-14 while the average annual import growth rate rose from 7.2 per cent in 1980s to 9.6 per cent in 1990s and further to 18.2 per cent over the period 2000-01 to 2013-14.

Changes in Composition of Exports

Important changes have taken place in the composition of exports during the post-reform period such as:

1. The share of agriculture and allied products in total exports was one-fifth in 1990-91. This fell to 13.6 per cent in 2013-14.

2. Manufactured products account for a major share of the increase in aggregate exports over the period 1990- 91 to 2013-14.

3.Engineering goods occupied third place in India's export earnings in 1990-91 with a share of 11.9%. Since 2004-05 they are in first position.

4.Petroleum products were only $528 million in 1990-91. In

2013-14 they occupied second position in India’s export earnings.

5.Exports of chemicals increased, an important reason behind this increase is rise in exports of drugs, pharmaceuticals and fine chemicals.

Changes in Composition of Imports

Important observations regarding composition of India’s imports and structural changes therein during the post-reform period are as follows:

1. The most important import item in terms of in expenditure is POL (petroleum, oil and lubricants). The share of POL in total import expenditure was 25 per cent in 1990-91 and 36.7 per cent in 2013-14. In fact, for most of the post-reform period, POL imports have accounted for one-fourth (or more than one-fourth of total import expenditure.

A point that needs to be noted here is the compositional shifts within the broad level of aggregation during the last the decade. For instance, within the petroleum imports there has been a shift from import of petroleum products towards crude imports following a large-scale increase of refinery capacity over time. Furthermore, India transformed itself from a net importer of finished petroleum products to net exporter of the same in 2001-02.

2. To meet the requirements of the gems and jewellery industry (which is an important export industry of the country) pearls and precious and semi-precious stones are imported in large quantities. These imports amounted to 2,083 million in 1990-91 and 23,863 million in 2013-14.

3. Imports of capital goods at $5,833 million in 1990-91 accounted for 24.2 per cent (i.e., almost one-fourth) import expenditure in 1990- 91. For most of the post-reform period, imports of capital goods have accounted for almost one-fourth of import expenditure. In 2013-14, of the total imports of 4,50,082 million, imports of capital goods were 81,178 million, i.e. 18.9 per cent of total imports

4. As a result of liberalisation of trade policy in the post-reform period and changing consumer tastes, imports of electronic goods and computer goods have increased substantially during the recent years. During l993-94, imports of electronic goods and computer goods were worth $ 930.4 million which was just 4 per cent of total import expenditure. In 2000-01, their imports had risen to $ 3,694 million which was 7.3 their per cent of total import expenditure. In 2013-14 imports of electronic goods and computer was $30,963 million which was 6.9 per import expenditure.

5. There has been a steep fall in the imports of project goods in recent period. The share of import of project goods in total import expenditure was 6.3 per cent in 1998-99 which fell drastically to only 1 per cent in 2013-14.

6. The share of fertilisers in import expenditure fell from 4.1 per cent in 1990-91 to only 1.8 per cent in 2012-13. The share of iron and steel expenditure fell from 4.9 per cent to 1.8 per cent in 2013-14.

7. The share of chemical elements and compounds in total import expenditure remained stable at 5-6 cent all through the period 1990-91 to 2005-06 and was 0.8 per cent in 2013-14.

8. Data on imports of gold and silver since 1999- 2000 are now available. These data show that gold and silver imports were of $4,706 million in 1999-2000 and these rose to $55,794 million in 2012-13. Percentage share of gold and silver in total import expenditure was 11.4 per cent in 2012-13. However, due to strict restrictions on imports of gold in 2013-2014, the imports of gold and silver fell to $33,432million in this year which was 7.4 per cent of total import expenditure.

Foreign Capital since 1990:

Foreign capital did not flow in requisite quantity into India during the period of the Frist Plan. The 1956 Industrial Policy Resolution, opened up immense fields to foreign participation.

In addition, trends grew towards Liberalisation slowly and gradually and the role of foreign investment grew more and more important. NIP 1991 recognized the role of FDI in the process of industrial development in India in terms of bringing greater competitiveness and efficiency and also modernization, technological upgradation, creation a sound base for export promotion and above all integrating India with rest of the world.

Foreign capital can be obtained either in the form of:

- concessional assistance foreign investment.
- non- concessional foreign investment.

Concessional assistance includes grants and loans obtained at low rates of interest with long maturity.
Non- concessional foreign investment includes mainly external commercial borrowings, loans from other government, deposits from non-residents. Foreign investment is generally in the form of private foreign participation in certain sectors of the domestic economy.
New Industrial Policy was announced by the government of India in July 1991 and, the policy welcomed foreign investment and foreign technology. Since 1991, the country's policy on foreign investment is gradually evolving through the introduction of liberalization measures.

Sectoral Composition of Foreign Direct Investment

Considering the sectoral composition of FDI over the period January 2000 to April 2008, the largest recipient of such investment was the services sector. Its share in cumulative FDI over the period was 20.2 per cent ($ 13,519 million out of $66,938 million).
Services sector was followed by:

- computer software and hardware (share 11.1 per cent), telecommunication (share 6.0 per cent),
- construction (share 5.1 per cent),
- housing and real estate (share 4.6 per cent)
- automobile industry (share 4.1 per cent).

In fact, these six sectors together accounted for cumulative FDI of $34,167 million over the period January 2000 to April 2008 which is 51.0 per cent (i.e., more than half) of total FDI received over the period. During 2013 14, FDI was mainly channelled into the manufacturing sector (39.7 per cent), followed by electricity and other generation (8.0 per cent), construction (7.9 per cent), communication services (7.8 per cent, and retail and wholesale trade (7.1 per cent). Thus, these five sectors accounted for 70 per cent of FDI inflows in 2013-14.

The Department of Industrial Policy and Promotion (DIPP) issued Press Note 5 (2016 Series), on 24th June, 2016, giving effect to FDI policy reforms announced on 20th June, 2016. The major highlights of the newly announced policy are as follows: -

100% FDI permitted under government approval route for trading, including through e- commerce, in respect of food products manufactured and/or produced in India

In Defence, FDI beyond 49% permitted through government approval route, in cases resulting in access to modern technology in the country or for other reasons to be recorded

FDI limit for defence made applicable to Manufacturing of Small Arms and Ammunitions covered under Arms Act 1959

100% FDI under automatic route allowed in Broadcasting Carriage Services

74% FDI under automatic route permitted in brownfield pharmaceuticals
FDI beyond 74% under government approval in brownfield pharmaceuticals

100% FDI under automatic route permitted in Brownfield Airport projects

FDI limit for Scheduled Air Transport Service/ Domestic Scheduled Passenger Airline and Regional Air Transport Service raised to 100%

FDI up to 49% under automatic route and FDI beyond 49% through Government approval in Air Transport Service/ Domestic Scheduled Passenger Airline and Regional Air Transport Service

Foreign airlines would continue to be allowed to invest in capital of Indian companies operating scheduled and non-scheduled air-transport services up to the limit of 49% of their paid up capital.

FDI limit for Private Security Agencies raised to 74%.

FDI up to 49% allowed under automatic route and, beyond 49% and up to 74% with government approval in Private Security Agencies.

RBI permission not required for establishment of branch office, liaison office or project office or any other place of business in India if the principal business of the applicant is Defence, Telecom, Private Security or Information and Broadcasting.

Local sourcing norms relaxed up to three years for entities undertaking Single Brand Retail Trading of products having „state-of-art" and „cutting edge" technology.

FDI linked conditions removed for foreign investment in Animal Husbandry.

Role of foreign capital in the growth and development

FDI has played a significant role in the development of our economy. Our GDP has been grown four-fold since the year 1991. According to World Development Report (2010) India ranked 3rd in terms of purchasing power parity. It is also the 10th largest economy in terms of US dollar exchange rate. Furthermore, India is also the second fastest growing economy in the world with the highest economic growth rate. Though, China is the largest recipient of FDI but India is also increasingly becoming an important destination for FDI in Asia. Progressive liberalization of FDI policy has strengthened investor confidence with opening up of new sectors like integrated township, defence industry tea plantation etc. India's capacity as a host nation in attracting FDI has been enhanced during the post reforms period, but the quantum of FDI inflows relative to its size has been low as compared to other developing countries. Main reasons for these low FDI inflows has been related to the investment climate, poor infrastructure, foreign exchange rate fluctuation and business facilitation, which are comparatively at lower level. However, during pre-liberalization period FDI increased at 19.05% while during post liberalization period it has grown 24.28%. This indicates that liberalization has had a positive impact on FDI inflows in India.

Summary

Pre-reforms one of the major drawbacks in the industrial sector was the inefficient functioning of the public sector as it started incurring losses leading to drain on the nation's limited resources. Therefore, New Industrial Policy was announced by the government of India in July 1991.

The New Industrial Policy of 1991 brought changes such as Industrial delicensing, Deregulation of the industrial sector, increased efficiency and competitiveness of Public sector units, Abolition of MRTP Act. The Government of India has initiated a number of measures to open up gates for Foreign investment policy, foreign technology policy and the foreign trade sector through massive import liberalisation measures over the last decade.

There has been a shift from the inward-oriented policy of the past to an outward-oriented policy in present.

Through introduction of liberalisation measures foreign capital is also evolving gradually.