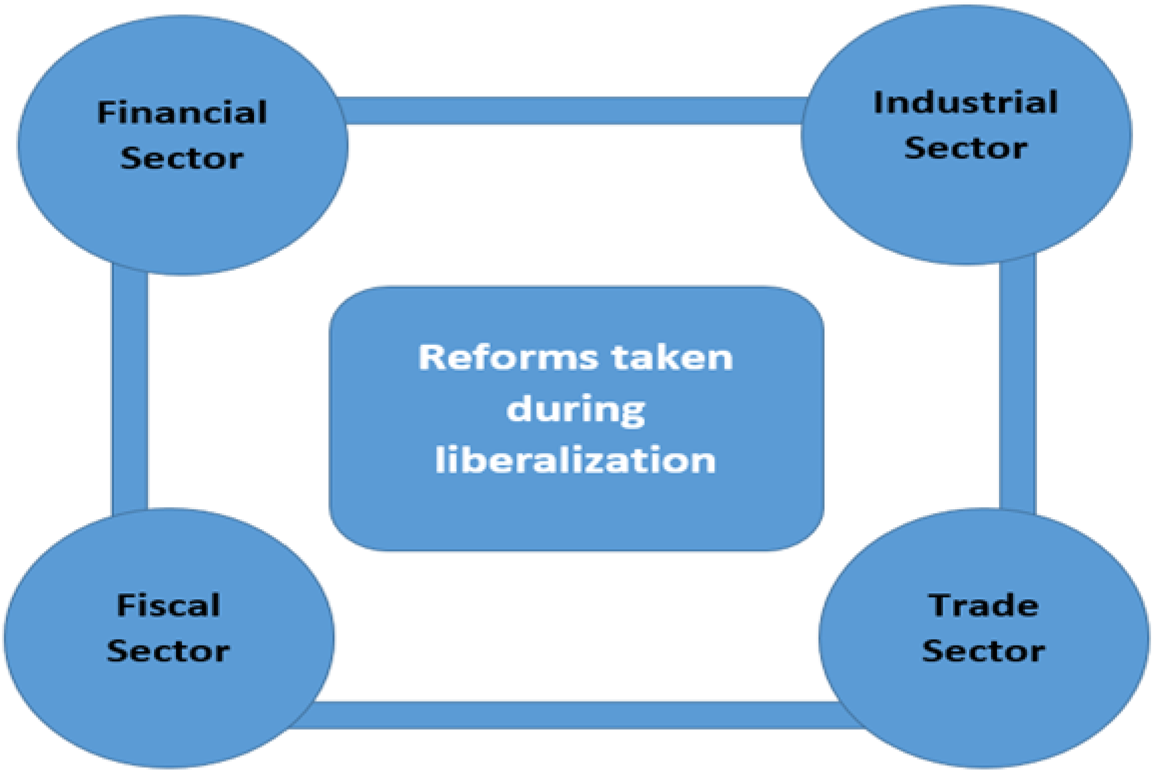
UNIT 58 – UPSC - Effects of Liberalization on the Economy

There have been revolutionary change in Indian Economy since the espousal of new economic strategy in 1991. This had great impacts on all areas of life in India. When a nation becomes liberalized, the economic effects can be intense for the country and for investors. Liberalization is defined as laws or rules being liberalized, or relaxed, by a government. Economic liberalization is generally described as the relaxing of government regulations in a country to allow for private sector companies to operate business transactions with fewer restrictions. With reference to developing countries, this term denotes to opening of their economic borders to multinationals and foreign investment. Many economist explained that economic liberalization is "opening up" to the rest of the world with regards to trade, regulations, taxation and other areas that generally affect business in the country.

Investors face problems to enter in emerging market countries when there are lots of barriers. These barriers can include tax laws, foreign investment restrictions, legal issues and accounting regulations that can make it difficult or impossible to gain access to the nation. The economic liberalization process begins by relaxing these obstacles and relinquishing some control over the direction of the economy to the private sector. This often involves some form of deregulation and a privatization of corporations.



Major goals of economic liberalization are the free flow of capital between countries and the effectual allocation of resources and competitive advantages. This is generally done by decreasing protectionist strategies such as tariffs, trade laws and other trade barriers. One of the main effects of this improved flow of capital into the country is that it makes it inexpensive for companies to access capital from investors. A lower cost of capital enables companies to undertake lucrative projects that they may not have been able to with a higher cost of capital pre-liberalization, leading to higher growth rates.

Stock Market Performance: Another factor is stock market performance. Generally, when a country relaxes laws, taxes, the stock market values also rise. Stock Markets are platforms on which Corporate Securities can be traded in real time. It offers mechanisms for continuous price discovery, choices for investors to exit from or enter into investment any time. These are strong base of free markets these days and there is vigorous trade going all over the world on stock exchanges. Their Importance can be assessed from the fact that, behaviour of stock markets of a country is strongest indicator of growth and future prospects of an economy. These markets have thrown open range of associated services such as Investment Banking, Asset Management, Underwriting services, Hedging advice etc. These collectively employ lakhs of people all over India. Similarly there are commodities market which provides avenues for investment and sale of various eligible commodities. Fund managers and investors are always on the lookout for new prospects for profit, and so a whole country that becomes available to be invested in will tend to cause a surge of capital to flow in. The situation is similar in nature to the anticipation and flow of money into an initial public offering (IPO). A private company that was formerly unavailable to an investor that suddenly becomes available typically causes a similar valuation and cash flow pattern. However, like an initial public offering, the initial eagerness also eventually dies down and returns become more normal and more in line with basics.

Political Risks Reduced: Liberalization policies in country lessens the political risks to investors. The government can attract more foreign investment through liberalization in economic policies. These are areas that support and foster a readiness to do business in the country such as a strong legal foundation to settle disputes, fair and enforceable contract laws, property laws, and others that allow businesses and investors to operate with confidence. Also, government administration is a common target area to be streamlined and improved in the liberalization process. All these modifications can reduce the political risks for depositors.

Diversification for Investors: In liberalized economy, Investors gets benefit by being able to invest a portion of their portfolio into a diversifying asset class. Commonly, the correlation between developed countries such as the United States and undeveloped or emergent countries is comparatively low. Although the general risk of the developing country by itself may be higher than average, adding a low correlation asset to your portfolio can reduce your portfolio's overall risk profile. However, a discrepancy should be made that although the correlation may be low, when a country becomes liberalized, the relationship may actually rise over time. This happens because the country becomes more incorporated with other parts of the world and has become more sensitive to events that happen outside the country. A high level of integration can also lead to increased contagion risk which is the risk that crunches that occur in different countries cause crises in the domestic country.

With the advent of Information Technology in contemporary period, globalization process increased and it made possible transfer of real time human labour across nations, without transfer humans themselves. Additionally, it removed all boundaries which hinder free flow of information. It has many benefits to investors such as sharing, nurturing and development of knowledge in societies which earlier had access only to substandard or non-updated information. As always package is coupled with some grim realities too. All over the world, Governments has lost their capacity to control and ward of against malevolent, false, sensitive information and content. Rise of Islamic State establishes that information technology revolution has helped global Terrorism. Furthermore, explicit content is freely available on web, to which immature children have unhampered access.

Industrial Growth Rate: Liberalization is imperative for the growth of Indian economy. Barring few years, industrial growth rate has not been so much inspiring. Share of Industry still remains stagnantly low at 25%. It is discouraging that India has transitioned to be a service led economy, directly from an agrarian one. One compensation of this is end of policy of imports substitution which derived industrial growth up to 1990. Foreign companies got free access to Indian markets and made domestic products uncompetitive. They perceptibly had better access to technology and superior economies of scale.

India's status also trailed in the arena of Research and innovation. Import substitution required certain degree of investment and efforts in domestic production. It was done even when imports were inexpensive. This resulted in good and better capacity building up to that time. This was combined with constant technology denial by west, which further pushed government to spend on R&D. Technology Denial ended with liberalization and globalization. Till that time Indian Industry was better and modern than that of China. Currently, China has exceeded India by huge margin in case of both Industry and novelty.

Impact on Small Scale in India: Impact of small scale is evaluated from the beginning of colonization in 18th century. Colonization can be considered as 1st movement of globalization. In pre colonization period, India's textiles and handicraft was popular across the globe and was mainstay of Indian economy. With the initiation of industrial revolution along with foreign rule in India, Indian economy underwent major setback and much of its home-grown small scale cottage Industry was ruined. After independence, Indian government made many efforts to recuperate small scale sector by reserving items exclusively for it to manufacture. With liberalization, list of reserved items was substantially curtailed and many new sectors were thrown open to big companies.

Small scale industry exists and still remains strength of Indian Economy. It contributes to major portion of exports and private sector employment. Results are mixed, many former Small scale industries got bigger and better. But overall value addition, product innovation and technology adoption remains miserable and they exist only on back of government support. Their products are challenged by cheaper imports from China.

Impact on Agriculture: In the area of agriculture cropping patterns has undergone a huge modification, but impact of liberalization cannot be properly measured. It is observed that there are still all pervasive government controls and interventions starting from production to distribution.

Global agricultural economy is highly biased. It is due to imbalance in economic and political power in hands of farmers of developed and developing countries. In developed countries, commercial and capitalistic agriculture is in place which is owned by influential Agri corporations. They easily influence policies of WTO and extract a better deal for themselves at cost of farmers of developing world. Farming in developing world is subsistence and supports majority of poor people. With the process of globalization, there has been high fluctuation in commodity prices which put them in massive risk. This is a fact for cash crops like Cotton and Sugarcane. Recent crunches in both crops indicate towards this decisively.

Impact on Services Sector: In service sector, globalization has changed the scene of developing countries and misery for developed ones. Due to historic economic inequality between two groups, human resources have been much cheaper in developing economies. This was further aided by information technology revolution and this all culminated in migration of numerous jobs from developed countries to developing countries.

Information technology industry: Currently, Software, BPO, KPO, LPO industry are prospering in India and it has helped India to absorb a big mass of demographic dividend, which otherwise could have wasted. Best part is that export of services result in export of high value. There is almost no material exported which consume some natural resource. Only thing exported is labour of Professionals, which does not reduce, instead grows with time. Now India is better positioned to become actually Knowledge Economy. Exports of these services generate huge revenue for India's foreign Exchange.

Banking: In banking sector, liberal policies have great impact in Indian economy. Since improvements, there have been three rounds of License Grants for private banks. Private Banks such as ICICI, HDFC, Yes Bank and also foreign banks, raised standards of Indian Banking Industry. Now there is tough competition in the banking industry, and public sector banks are more responsive to customers. It is well understood that information technology is bringing banking revolution. New government schemes like Pradhan Mantri Jan dhanYojana aims to achieve their targets by using Adhaar Card. Public Sector Banks still remain major lender in the country. Similarly, Insurance Industry provides array of products such as Unit Linked Insurance plans, Travel Insurance etc. But, in India life Insurance business is still decisively in hands of Life Insurance Corporation of India.

Telecom Sector: Usually, Telecom sector was a government owned domination and therefore service was not very efficient. But after reforming polices, private telecom sector reached zenith of success. Indian telecom companies are progressing at global scale. However, corruption and rent seeking disfigured growth and outlook of this sector. Entry of modern Direct to Home services saw enhancements in quality of Television services on one hand and loss of livelihood for numerous local cable operators. Education and Health Sector: It is a fact that food (Agriculture), Health and education (and to lesser extent banking) are among basic requirements, which every human being deserves and cannot do without. Unfortunately, in developing countries, there is market failure in all these sectors and majority of people cannot afford beyond a certain limit. Concept of free markets, globalization, and liberalization fails despondently. Free markets provide goods and services to people who can afford paying for them, not to those who deserve and need these.

If experts evaluates these sectors from the perspective of free markets, some progress is visible. There has been high level education available in India and deregulation has resulted in growing of private engineering and medical colleges. But in reality, this had far reaching upsetting effect on society. These new colleges accommodate only small proportion of candidates at very high costs. In recent times, an Independent organization 'Transparency International' came out with report claiming that India's medical system is most corrupt in the world. High fees of education forces many aspirants to take educational loans from banks. After qualifying job market is unable to absorb majority of them. Practice turns out to be option of last resort. Now to make a decent living and to pay back the loans person is attracted by dishonesty. Subsequently, when many similar cases are put together, corrupt system is developed.

It is observed that after deregulation and liberalization, government along with other sectors, pulled its hand from social sectors too. In Public Sector less than mediocre to mediocre options are available. This leaves huge proportion of hopeful students and expecting parents.

It is well recognized that liberalization has major impact on the Indian economy and made it a huge consumer market. Currently, most of the economic changes in the country are based on the demand supply cycle and other economic factors. Today, India has made good status in economy in terms of market exchange rate and 4th largest in terms of the purchasing power parity. Economic liberalization is generally thought of as a useful and necessary process for developing nations. The fundamental goal is to have clear capital flowing into and out of the country in order to increase growth and efficiencies within the domestic country. The effects following liberalization are what should interest investors as it can provide new opportunities for diversification and profit.

Changes in Industrial Policies and their effect on Industrial Growth:

Industrial policy is described as a statement which explains the role of government in industrial development. The place of the public and private sectors in industrialisation of the country. The relative role of large and small industries. The role of foreign capital etc. Concisely, it is a statement of objectives to be realised in the area of industrial development and the measures to be adopted towards achieving these objectives. The industrial policy formally designates the spheres of activity of the public and the private sectors. It lays down rules and procedures that would govern the growth and pattern of industrial activity.

The major objectives of industrial policy are as under:

1. Rapid Industrial Development: The objective of the industrial policy of the Government of India is to augment industrial development. It seeks to create a positive investment climate for the private sector as well as mobilise resources for the investment in public sector. In its way the government seeks to promote rapid industrial development in the country.
2. Balanced industrial Structure: The industrial policy is intended to correct the predominant lopsided industrial structure. The industrial policy had to be framed in such a manner that these imbalances in the industrial structure are corrected. Thus by laying emphasis on heavy industries and development of capital goods sector, industrial policy seeks to bring a balance in industrial structure.
3. Prevention of Concentration of Economic Power: The industrial policy offers framework of rules, regulations and reservation of spheres of activity for the public and the private sectors. This is aimed at reducing the monopolistic tendencies and preventing concentration of economic power in the hands of a few big industrial houses.
4. Balanced Regional Growth: Industrial policy has an objective to check regional imbalances in industrial development. It is well recognized that some regions in the country are industrially quite advanced such as Maharashtra and Gujarat while others are industrially backward, like Bihar, Orissa. It is the duty of industrial policy to work out programmes and policies which lead to industrial development or industrial growth.

Before independence, India was not industrially developed country. It was an agrarian country where in handicrafts achieved sovereignty unmatched in the world. There are very few types of economic activity which became traditional in nature and could be included under the products produced under the factory system of 19th and 20th century. Strategies are modified to achieve an end. Indian industrial polices developed to obtain speedy economic progress through rapid industrialization and making economy self-reliant as an end. Industrial sector of the nation was in stagnations at the time of independence as it was not encouraged but ignored during the two centuries under British government. Their manipulative policies framed to serve the interests of their homeland were the major cause of lack of industrialization in India. India was the supplier of raw material and consumer of the British goods. The desire of Indians to industrialize can be observed from the standpoint of the creation of Bombay Plan which was initial effort by prominent industrialists of the country to form the industrial policy of the country through importance on heavy businesses

Industrial policies and economic policies were formed by the British Government for their interests. The tariff policy followed by British in India was based on the principal of one way free trade while the Indian interest for industrialization in India remained deliberately neglected. While British producers had unhampered access to Indian markets, Indian products were kept at bay by British industrial strategy. Only access was allowed to raw materials. Though the British

Government established Department of Commerce and Industry in 1905 but the activities followed through this department favoured industrial activity in England. Afterward, the dominant Government established board of Scientific and Industrial Research in 1940 but not much could come out of it. By this time, there were several plans such as one by congress working committee, Bombay plan, Visvesariya plan etc. Almost all of them proliferated heavy industries with dominant role of state.

After India got independence, various resolutions were passed in Parliament from time to time, landmark shift happened in 1991 when India was forced to open up its economy to global competition and government had to liberalise sectors to leave space for private industry. There are some revolutionary shifts in Industrial policy of India.

1. Industrial Policy Resolution, 1948: After independence, it was compulsory to have new policy for industry of the country, to decide priority areas and clear doubts in the minds of private entrepreneurs regarding nationalization of existing industries. In Industrial Policy Resolution of 1948, both public and private sectors were involved towards industrial development. Consequently, the industries were divided into four far-reaching categories:

I. Exclusive government Monopoly: This includes the manufacture of arms and ammunition, production and control of atomic energy and the ownership and management of railway transport. These industries were the exclusive monopoly of the Central Government.

II. Government Monopoly for New Units: This group included coal, iron and steel, aircraft manufacture, ship building, manufacture of telephone, telegraphs and wireless apparatus (excluding radio receiving sets) and mineral oils. New undertakings in this category could henceforth be undertaken only by the State.

III. Regulation: This category encompassed industries of such basic importance like machine tools, chemicals, fertilizers, non-ferrous metals, rubber manufactures, cement, paper, newsprint, automobiles, electric engineering etc. which the Central Government would feel necessary to plan and regulate.

IV. Unregulated private enterprise: In this category, industries were left open to the private sector, individual as well as cooperative.

The main shove of the 1948 Industrial Policy was to develop mixed economy where both the private and public enterprises were to be given prominence and work together to develop economy to quicken the pace of industrial expansion.

Industrial Policy Resolution, 1956: Industrial Policy Resolution 1956 was formed by Mahalanob model of growth which highlighted on role of heavy industries for long term development of country. The resolutions broadened the scope of public sector with the elementary objective of accelerating economic development and enhance the process of industrialization. Policy also has major goal to decrease regional discrepancies through development of low industrial base and by giving impetus to small scale industries and cottage industries as they had a huge potential to provide mass employment. The policy stuck in line with the prevalent beliefs of the times i.e. accomplishing self-sufficiency. But the policy faced many implementation catastrophes and as a result in failure of its objectives such as regional disparities and concentration of economic power.

The Industrial Policy Resolution of 1956 grouped the whole industrial sector in three Schedules: Schedule A: In the first category, those industries were included whose future development was the exclusive responsibility of the State. Seventeen industries were included in this category. This included heavy and strategic industries such as defence equipment; Atomic energy; Iron and Steel; Heavy castings and forgoing of iron and steel; Heavy plant and machinery required for iron and steel production for mining.

Schedule B: In this group those industries were included which were progressively State- owned and in which the private enterprises would be expected only to supplement the efforts of the State. In this category twelve industries were included.

Schedule C: Industries that are not listed in schedule A or B were included in the third category. These industries were left open to the private sector. Hence, the responsibility with regard to establishment, function and development was of private sector, though even here the state could start any industry in which it was interested.

Small Scale Sector: Several proposals were made to boost small sector such as

I. Direct subsidy was provided to small scale sector.
II. Suitable taxation relief was given to this sector.

Main objective of the State was to protect small scale sector by advancing technical assistance. Nonetheless, government was unsuccessful to incorporate these industries and their programs with the production program of the large- scale sector.

Foreign Investment: Another area of industrial growth is foreign capital participation in Indian economic development but the major share should belong to India. In case of already existing foreign establishments, these will be replaced by Indian technicians progressively.

One of the major objectives of resolution was decrease in regional inequalities and imbalances. But opposing to this, the actual operation of this policy resulted in increased regional disparities. This becomes obvious from various reports which prominent that the four industrially advanced States of Maharashtra, Gujrat, West Bengal and Tamil Nadu benefited the most from the operation of this policy. Most important sectors were reserved for government, but government failed to develop on these reserved sectors. Sometimes, private sector was permissible to operate in these areas. This was due to system of rent seeking and kickbacks which developed during this period.

Monopolies Inquiry commission (MIC) was formed in 1964 to appraise various aspects pertaining to concentration of economic power and operation of industrial licensing under Industrial (Development and Regulation) Act 1951. The report while emphasizing that planned economy contributed to progress of industry accused the licensing system which permitted the big business companies to obtain disproportionately large share of licenses which had led to pre-emptive and foreclosure of capacity. Consequently, Dutt committee or Industrial licensing inquiry committee 1956 recommended that big industrial houses must be given licenses only for setting up industries in core and heavy investment sectors. Further, in order to control the concentration of economic power, Monopolistic and Restrictive Trade Practices Act (MRTP) was presented. Large industries were designated as MRTP companies and were qualified to participate in industries that were not reserved for government or small scale industries.

The Monopolistic and Restrictive Trade Practices Act, 1969: This act was trademark of infamous 'license quota permit' system. Companies having more than specified value of assets required to take permission/license before any development and commencement of operations. Major objectives were as under:

1. To prohibit monopolistic and restrictive trade practices (except by government).
2. To prevent concentration of economic power in few hands.
3. To control the monopolies.
4. To protect consumer interest.

The Monopolistic and Restrictive Trade Practices Act became operative in June 1970. There were more emphasis on increasing efficiency of industry. There were major modifications in 1980's and The Monopolistic and Restrictive Trade Practices commission was also setup. This act was mismatched with new economic policy after 1991 and subsequently, it was repealed in 2009. Now Competition Act and Competition Commission of India are in place instead.

Industrial licensing policy as well as Industrial policy 1973 both highlighted on the necessity for controlling the concentration of capital and gave importance to small and medium scale industries. Continuing the favouritism to small scale industries the Industrial policy 1977 went a step ahead by introducing District industrial centres to provide support to SSI. It also introduces the new category called TINY SECTOR and considerably expanded the reserve list of small scale industries. But due to exogenic shocks (wars) as well as internal disturbances (emergency) and implementation problems the policy failed to have a substantial effect.

Industrial Policy Resolution 1977: This resolution was made due to change in government at centre. Subsequently, this policy stressed more on small scale industry, cottage and village industry. This was move away from Nehruvian- Mahalanobis ideology to Gandhian ideology of economic development. This categorized the small sector into three categories:

1. Cottage and household industries which provide self-employment on a wide scale.
2. Tiny sector incorporating investment in industrial unit in machinery and equipment up to Rs.1 lakh and situated in towns with a population of less than 50000.
3. Small-scale industries comprising industrial units with an investment of Rs.10 lakh and in case of ancillaries with an investment in fixed capital up to Rs.15 lakh.

Small Scale sector specific policies were formulated. Number of items reserved for this sector was increased (105 to 807). 'District Industries Centres' were established in every district, which are instrumental for support to small scale industry. This agency would provide under many services at one place and support required by small and rural entrepreneurs. Khadi and Village Industries Commission was revamped.

This resolution considered large industries on the lines of Basic/core industry, Capital Goods industry, High Technology industry and other Industries. It was also visualised that government made extreme efforts in the development of indigenous technology, which should guarantee efficient production, continued inflow of technology in sophisticated and high priority areas where Indian skills and technology are yet not sufficiently developed.

Additional, foreign investment would be exhilarated only for some industries in the national interest as decided by the Government. This indicated that in areas where the foreign collaboration was not required, such case would not be reviewed. For this there was draconian Foreign Exchange Regulation Act in place.

Industrial Policy resolution, 1980: In this period, Congress made government and soon restored its own industrial policy. Major Changes were as under:

1. Some of the items reserved for small scale industry were de-reserved.
2. Many units/companies were operating on excess capacities, than allowed by law. These excess capacities were regularized.
3. Foreign Investment was allowed with technology transfer.
4. Regulations, Licensing, restrictions were eased a bit signalling inclination towards private sector.
5. The mounting economic situation led to formulation of Industrial Policy 1980 which sowed the seeds of liberalization.

The Industrial Policy 1980 put more emphasis on competitiveness in the domestic market, technical advancement and modernization of industries along with the focus on optimum utilization of installed capacity for ensuring higher productivity, higher employment levels, and removal of regional disparities. Policy measures were proclaimed to recuperate the efficiency of public sector undertakings along with provisions of automatic development. The public sector undertakings were freed from a number of restrictions and was provided with greater sovereignty. Government took major initiatives to deregulate all industries except for those specified in the negative list. The limited liberalization initiated in 1980s reached its summit with a landmark policy change in 1991.

Industrial Policy 1991

This policy slated a paradigm shift in the appraisal of industrial policy and development. Increase in Fiscal shortfall and monetized deficit along with the global financial crises (Gulf war, oil crises) played a major role in beginning of the new episode in the history of industrial policy and economic progress. The objective of the policy was to maintain sustained growth in productivity, enhance gainful employment and realise optimal utilization of human resources, to accomplish international competitiveness and change India into a global player. Main emphasis of the policy was to liberate the industry from bureaucratic control. Important modifications brought about by the policy were as under:

1. Abolition of industrial licensing for most industries barring few which were important because of strategic and security concerns and social environmental issues.
2. Significant role accorded to FDI. 51% FDI allowed in heavy industries and technologically important industries.
3. Automatic approval to technological agreements for promotion of technology and hiring foreign technology expertise.
4. Restructuring of PSUs to increase productivity, prevent over staffing, technology up gradation and to increase rate of return.
5. Disinvestment of PSUs to increase resources and increase private participation.
6. The policy realized that governmental intervention in investment decision of large companies through MRTP act has proved to be deterring for industrial growth. Hence thrust of the policy was more on controlling unfair and restrictive trade practices.

Provisions restricting mergers, amalgamations and takeovers were replaced. Since then the LPG reforms initiated in 1991 has been considerably expanded. Some of the measures are mentioned below.

7. Competition commission of India was established in 2003 so as to prevent practices having adverse impact on competition in markets.
8. A new North East Industrial Policy was introduced in 1997 for mitigating regional imbalances due to economic growth.
9. Focus on disinvestment of PSUs shifted from sale of minority stake to strategic stakes.
10. Focus on PP with government playing a facilitative role rather than regulatory role.
11. FDI limits increased in almost all the sectors including defence and telecommunications.

New Industrial Policy 1991

The year 1991 observed a radical change in the industrial policy governing industrial development in the country since independence. This major transformation opened new era which was to implement completely open economic system as compared to the previous mixed system. The country decided to follow the lines of capitalism. It is also believed that there was change from 'imperative' to 'indicative' planning under new system. Features of New Industrial Policy.

Industrial Licensing Policy

New industrial policy eradicated all industrial licensing, regardless of the level of investment, except for a short list of 18 industries related to the security and strategic concerns, social reasons, hazardous chemicals and overriding environmental reasons and items of elitist consumption. Nevertheless, of these 18 industries, 13 categories have been removed from the list gradually and currently only 5 category of health, strategic and security considerations industries needs license viz. Alcohol, cigarettes, hazardous chemicals, electronic, aerospace and all types of defence equipment.

Policy on Public Sector

The 1956 Resolution had reserved 17 industries for the public sector. The 1991 industrial policy reduced this number to 8. Currently, only 3 industries are reserved for government which include

1. Atomic Energy
2. Mining of Atomic Minerals
3. Railway Transport.

The policy also advocated that those public enterprises which are constantly sick and which are suspect to be turned around will, for the formation of revival/ rehabilitation schemes, be referred to the Board for Industrial and Financial Reconstruction (BIFR), or other similar high level institutions created for the purpose, in order to protect the interests of workers likely to be affected by such rehabilitation package, a social security mechanism will be created.

Privatization/disinvestment: Government declared its plan to offer a part of government shareholding in the public sector enterprises to mutual funds, financial institutions, the general public and the personnel. A beginning in this direction was made in 1991-92 themselves by diverting part of the equities of selected public sector enterprises.

Monopolistic and Restrictive Trade Practice limit: Under the Monopolistic and Restrictive Trade Practice Act, all companies with assets above a certain size (Rs.100 crore since 1985) were grouped as MRTP firms. Such firms were allowed to enter selected industries only and this also on a case by case approval basis. In addition to control through industrial licensing, separate approvals were required by such huge firms for any investment applications. The New Industrial Policy removed the threshold limit in assets in respect of MRTP companies.

Policy on Foreign investment and Technology agreements: In transforming industrial policies in India, The New Industrial Policy developed a specified list of high technology and high investment priority industries, wherein automatic permission was to be made available for direct foreign investment up to 51 percent foreign equity. The industries in which automatic approval was approved included array of industrial activities in the capital goods and metallurgical industries, entertainment electronic, food processing and the services sectors having significant export potential. List of such industries is being expanded since then. Abolition of Phased Manufacturing Programs for New Projects: The main objective of these programs was indigenization of technology. These were in force in a number of engineering and electronic industries. The new policy abolished such program for future.

Removal of Mandatory Convertible Clause: In pre liberalization period, there was a mandatory convertible clause in loan agreement with borrower. According to this clause, banks had authority to convert their loan amount into equity whenever they feel so. This used to make them "owner' from 'lender' in that enterprise. This clause was used by government as a tool to nationalize private firms. This was removed under new economic policy.

New economic policy was result of long period of incompetent supremacy of public sector. However, public sector by this time had built strong industrial base on which other industries can succeed in future. This was one of the objectives of Nehruvian model. Naturally, Industrial and economic growth remained gloomy during this period. Process of liberalization begun in 1980’s which demonstrated better performance of economy. Recent high growth cannot be attributed to initiatives of New industrial and economic policy as statistical evidence propose better performance from early 1980's.

In post liberalization era, government has effective role of facilitator and controller. Some decisive indications toward this are replacing Foreign Exchange – Regulation Act with Management Act, latter one being more liberal and less harsh. Correspondingly, MRTP act was swapped by competition Act. Presently, foreign direct investment is allowed in many sectors, in many of them through automatic route. However, post 1991 growth is accused of uneven growth with upsetting social impact as government had taken back expenditure from social sectors too.

To summarize, economic liberalization started in 1991 in India of reviving economic policies, with the goal of creating the economy more market-oriented and increasing the role of private and foreign investment. Regarding industrial policies, it is apparent from the development of industrial policy that the governmental role in development has been widespread. The path to be followed towards industrial development has evolved over time. In early stages, the government adopted an inward looking development policy which enforced the Indian industry to have low and inferior technology and throttled the growth of private sector. It disallowed the domestic industries from severe competition and therefore resulted in low productivity and limited its ability to expand employment prospects.

The focus on self-reliance and lack of investment in R&D acted as obstacles to technological development and hence led to the production of inferior quality of goods. There is strong belief that foreign merchandises are superior to Indian goods is still predominant in Indian society. It is well established that the condition of the nation after two centuries of exploitation and a shocking separation must be kept in mind before evaluating the progress of the continual industrial policy. Many factors like lack of tactical skills, low literacy levels, unskilled labour, and absence of technology were significant aspects of Indian economy before independence. It is said that, Industrial plans and policies and their revival has vital role for the economic growth of any country.