 DOI: *https://doij.org/10.10000/IJLMH.114644*

INTERNATIONAL JOURNAL OF LAW MANAGEMENT & HUMANITIES

[ISSN 2581-5369]

Volume 6 | Issue 2

2023

Reflections of 1991 New Economic Policy in Contemporary Times

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ABSTRACT

The economy of a country has always been regarded as a mechanical reflection of its culture and lifestyle of the masses; it backscatters articulate factors such as the nature of market forces, employment factors and ratios, per capita income, which further explains the livelihood of the majority of people and the country's contribution to the common goal of global market integration. With numerous challenges ranging from stagnant agricultural revenue to a painstakingly slow pace of industrial development, the Indian Economic landscape emerging from the post-independence era has been a terrain of crests and troughs, attempting to ensure holistic development on a macro level while also meeting the parameters of articulate intricacies of micro economic development. With various legislations and policies being prepared with the goal of liberalising Indian markets, only a minority of them have made it to parliamentary tables, and hence into the nation's societal and economic currents.

In light of the same discussion, the paper attempts to understand the New Economic Policy ushered in by the Government of India in 1991 with its primary objectives being liberalisation, globalisation and privatisation of the Indian markets. The paper attempts to trace and analyse the reflection of the policy to the contemporary market trends and understands the positive as well as negative effects of the same in the current economy. The author has adopted a doctrinal method of research and relies mainly on primary data such as the Union Budget launched by the Ministry of Finance, Government of India and Economic Survey. Certain secondary sources such as economic commentaries by renowned economists have also been covered.

Keywords: *Economic growth, Law and Economics, Economic Policy, Indian Economy.*

I. INTRODUCTION

(A) Background

The Economy of a nation has always been considered as a mechanical reflection of its culture and lifestyle of the masses; it backscatters the articulate factors such as the nature of market forces, employment factors and ratio, per capita income which further explains the livelihood

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of the majority of people and the country's contribution towards the common goal of global integration of the markets.

The Colonial Rule came as a fetter to India's economic growth and left a long lasting impact on the Economy, a mark which still remains to be a challenge to be wiped off the slate of the dynamic landscape of law and economic confluence. With numerous challenges ranging from a stagnant revenue from the agricultural sector to a painstakingly slow pace of industrial development, the Indian Economic landscape graduating from the post-independence era has been a terrain of crests and troughs, attempting to ensure a holistic development on macro level, while fulfilling the parameters of articulate intricacies of micro economic development as well[2]. With numerous legislations and policies being drafted aiming towards the liberal nature of the Indian Markets, only a fraction of them could successfully find their way to the parliamentary tables, and subsequently in the societal and economic currents of the nation.[3] On studying the policies drafted on the way to the Industrial Development of the nation, the latent shift towards a liberal approach can be observed throughout the Industrial Reforms till 1991.

From a macro perspective, one can observe that the economic growth had two major aims – uplifting the masses on the lower side of the economic spectrum by engaging them in mass employment opportunities and strengthening the domestic markets to an extent where the Indian trade came as a strong hub of economic development globally. The Industrial Policy Resolution of 1948 was the first policy in the field and came forth as a strong advocate for the liberal nature of the Indian Markets, which cushioning the poor sections with incentives in the field of industrial trade, aiming towards a sustainable pace of economic development[4].While simultaneously moving ahead with the goals, India was creating a stronghold through international trade and rapid development of domestic markets, the Indian Economy found itself at a standstill in the year 1991, which now is known as the biggest turning point in the history of the nation's economy.

II. The 1991 crisis and reforms

Towards the end of 1980s, in quest of balancing the economy on the pillars of international trade, borrowings and limited relations based on exports, India found itself in the Balance of Payments Crisis, mainly due to unsustainable borrowing and high government expenditure. The trade deficit went upto Rs 16,900 crores in 1990-91 and the Indian Foreign Reserves declined

[2] Chandra, B., Mukherjee, M. and Mukherjee, A., 2000. *India Since Independence*. Penguin Random House India.
[3] Singh, R., 2021. *Indian Economy*. 12th ed. McGraw Hill, pp.6.6.
[4] Verma, S., 2021. *The Indian Economy*. Unique Publishers.

to Rs 25,000 crore from Rs 5,277 crore by 1990[5].

The New Economic Policy of 1991 rolled out in the month of July was focused on attaining a goal which was a combination of achieving macroeconomic stabilization and structural adjustment of the Indian Economy. The foundational principles of the policy were – Liberalization, Privatization and Globalization of the Indian Economy. The LPG reforms introduced in the Indian Economy through the 1991 New Economic Policy was a turning point in the history – it not only had an immediate effect onto the day to day functioning of the nation as a whole, but also promised an accelerated financial growth in the long run. From a bird's eye-view the LPG reforms can be dissected as Liberalization being the direction of reform, Privatization paving the path of reform and Globalization being the ultimate goal of the Economic Reform[6]. It was viewed as a stark policy shift and was also referred to as the "Alternative Development Strategy" for India's economic rebound. However, various scholars put together their theories and brought forth strong arguments and view on the drastic turn of events in the Indian Economy, specifically the New Economic Policy. The masses inspired by the Marxist ideology viewed the policy as a result of a political pressure from the domestic industrialists, looking to expand the scope of their profits, encroaching upon the public enterprises aimed at upliftment of small industries[7]. Another parallel group critiquing the policy from a different perspective viewed the policy as something created through a very narrow perspective and labelled the faltered events under the policy as "the society hitting back"[8]. On the positive front, the promotion of private sector, which ranged from de-licensing of the industries to conversion of loans into shares came as a breather to the people looking for a stronghold to flourish their business on Indian mainland. Furthermore, it came out to be a vital component of an accelerated growth of the GDP even in contemporary times[9].

On analyzing the policy, the major contributing factors stem from the provisions resting on the principles of Liberalization, Privatization and Globalization and thus it is believed that opening the domestic markets to international trade while ensuring a viable and potential environment for flourishing of small businesses is the supreme path for economic development in light of the Indian Economy.

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[5] India Before 1991. 2021. *1991 Crisis*. [online] Available at: http://indiabefore91.in/1991-crisis [Accessed 23 May 2021].
[6] Singh, R., 2021. *Indian Economy*. 12th ed. McGraw Hill, pp.6.6.
[7] Pedersen, J., 2000. Explaining Economic Liberalization in India: State and Society Perspectives. *World Development*, 28(2), pp.265-282.
[8] Pedersen, J., 2000. Explaining Economic Liberalization in India: State and Society Perspectives. *World Development*, 28(2), pp.265-282.
[9] Ravan, S., 2014. Impact of LPG on Indian Economy. *Prime International Research Journal*, 1(4).

III. Impact of L.P.G. reforms

The reforms under the New Economic Policy of 1991 based on the foundational principles of Liberalization, Privatization and Globalization came is a break through to a wide spectrum of opportunities to the domestic traders. It not only galvanized the domestic industries with fresh approaches and a broader client base, but also strengthened the industrial and marketing processes in the long run. The growth rate of India's GDP which initially had fallen to a paltry 0.8% during 1990-91, had now hiked up to 5.3% in the fiscal year 1992-93 and further went up to 6.3% in 1993-94[10].

The spectrum of major frameshifts which occurred due to the reforms ranges from the dilution of the role of Public Sector in the Indian Markets (thereby creating room for new players to enter the picture and generate high profits which benefitted the Gross National Income) to opening the floodgates to privatization in the Indian Markets. It increased the global presence of shareholders for Indian Markets and Industries as well as generated a high quantum of revenue for the Indian Economy. A freer entry for foreign investment and technology enabled a rapid acceleration of the economic growth of the country and reduction of taxes and cess levied on the citizens[11].

A broader scope of markets and revenue generation not only benefitted the economic growth considerably, but also pumped considerable amount of revenue for the overall development of the country. It not only reflected in the markets through dramatically increased transaction, but also was evident by the stark difference in lifestyle of the masses in the subsequent years.

Notably, the Indian Economy averaged the growth rate of over 7.5%, a rate similar to the high performers of East Asia[12].

IV. Reflection of LPG Principles in Contemporary Times

In light of the recent events and the technical recession that India went through in November, 2020 owed to the Global Pandemic caused by the Novel Coronavirus across the globe, it is of utmost importance to understand the efforts and policies rolled out by the current government to combat the economic crisis and keep the Indian Economy afloat, which fosters for a considerable chunk of workforce in various sectors globally.

As claimed by the Finance and Revenue Secretary of the Government of India – Mr. Ajay Bhushan Pandey, the Union Budget of the fiscal year 2021-22 aims to propel India's growth

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[10] Chandra, B., Mukherjee, M. and Mukherjee, A., 2000. *India Since Independence*. Penguin Random House India.
[11] Ravan, S., 2014. Impact of LPG on Indian Economy. *Prime International Research Journal*, 1(4).
[12] Chandra, B., Mukherjee, M. and Mukherjee, A., 2000. *India Since Independence*. Penguin Random House India.

trajectory and a "V-shaped" recovery through asset monetization, disinvestment, spending on public health and infrastructure, which shall subsequently create more opportunities for employment and hence will set the economic wheel in motion. It is claimed that the Budget proposals are strongly in resonance with the foundational ideals of the Aatmanirbhar Bharat Mission while creating an environment of competition, innovation and delivery of a fast paced economic growth targeting all the economic stratus of the society along with ensured benefits to all, special for the poor and marginalized sections of the society.

Following the key principle of Minimum Government and Maximum Governance, the government has laid down an intricate navigation for disinvestment and privatization, wherein not only the scope of State involvement has been controlled, but also looks back and revisits the foundational principle of privatization from the New Economic Policy of 1991[13]. On a focused look, more instances of the steps stemming from the foundational principles of the Liberalization, Privatization and Globalization have been observed in the present day budget rolled out by the Union Government. As explained under the clause 9 of the Introduction of the Union Budget Manuscript, certain instances include the introduction of Aatmanirbhar Packages ranging from Redefinition of MSMEs, Commercialization of the Mineral Sector, Agriculture and Labour Reforms, Privatization of Public Sector Undertakings, One Nation One Ration Card and Production Linked Incentive Schemes[14]. These steps reflect not just the fundamental principles of the 1991 policies and reforms, but also shed light onto the development of the economically weaker sections. Furthermore, one of the basal features which reflects in the policies and frameworks is the goal of self-sustainability, which was the fundamental principle governing the economic development of the country since independence[15].

Interestingly, one of the major policies which stands out in midst of the other efforts of the government to tilt the economy towards liberal framework is the Production Linked Incentive Scheme.

V. Case Study: Production Linked Incentive Scheme

As explained under the clause 40 of the Union Budget 2021-22, India being a USD 5 trillion economy, it needs to strengthen its manufacturing sector for a sustainable pace of economic growth. It lays emphasis on the fact that the Indian Manufacturing Companies need to lay become an integral part of the global supply chains, possess core competence while keeping up with the cutting-edge technology. In light of the same, the Government of India came up with

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[13] Pandey, A., 2021. Towards Aatmanirbhar Bharat. *Yojana*, (March, 2021).
[14] 2021. *Budget 2021-22*. Ministry of Finance, Government of India.
[15] Chandra, B., Mukherjee, M. and Mukherjee, A., 2000. *India Since Independence*. Penguin Random House India.

the Production Linked Incentive Policy in the fiscal year 2020-21, which initially included three industries under the same. Taking a step forward, 13 more sectors were roped into the policy in the recent budget. This initiative is aimed at bringing scale and size in key sectors, while creating and nurturing global champions by providing jobs to the youth as well.

Production Linked Incentive or PLI scheme is a scheme that aims to give companies incentives on incremental sales from products manufactured in domestic units. The scheme invites foreign companies to set up units in India, however, it also aims to encourage local companies to set up or expand existing manufacturing units and also to generate more employment and cut down the country's reliance on imports from other countries[16]. It implements the same through providing concessions on taxes and trade licenses to the industries falling under the chosen sector.

This year's budget allocated a total of Rs 1.97 trillion (USD 26.99 billion), and is aimed at boosting the growth of three major industries – Mobile Manufacturing, Electric Components and Pharmaceutical and Medical Device Manufacturing. While it is mainly aimed at increasing the foreign investment and attracting foreign manufacturers and industrialists to club with Indian enterprises and set-up their warehouses in India, it also caters for introducing non-tariff measures for in order to compete effectively with cheap imports and promote the ideals of Aatmanirbhar and Make in India Campaign for a sustainable economic development[17]. While it has proven to be a success to the Indian Economy in the previous fiscal year by procuring deals from major names in the manufacturing industry like Apple, Samsung and Foxconn, it must be emphasised on the fact that this scheme has been proven to hold a potential of nearly 1.40 crore jobs directly from the fiscal year 2021-22[18].

Moreover, this scheme has been a trusted stronghold by the government due to the fact that it has initially proven to be a major expansion factor for the economy as it was observed in the models of China, Korea and Vietnam; countries which face somewhat similar economic challenges as India.

While the scheme is supposed to be set in the right direction and has been implemented effectively in line with its expectations as it has been predicted to generate a total of Rs 35 – 40

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[16] Virendranath, R., 2021. *PLI Scheme (Production-Linked Incentive Scheme): Fact Sheet - Government, Public Sector - India*. [online] Mondaq.com. Available at: https://www.mondaq.com/india/inward-foreign-investment/1038904/pli-scheme-production-linked-incentive-scheme-fact-sheet [Accessed 25 May 2021].

[17] Drishti IAS. 2021. *PLI Scheme for Ten More Sectors*. [online] Available at: https://www.drishtiias.com/daily-updates/daily-news-analysis/pli-scheme-for-ten-more-sectors [Accessed 25 May 2021].

[18] ETAuto.com. 2021. *Opinion: Can PLI Scheme reboot the manufacturing sector in India? - ET Auto*. [online] Available at: https://auto.economictimes.indiatimes.com/news/industry/opinion-can-pli-scheme-reboot-the-manufacturing-sector-in-india/80261403 [Accessed 25 May 2021].

lakh crore; there are certain debates and strong points put forth by the subject experts. A point successfully highlighted was the gross misallocation of funds under the head of food production in such turbulent times as the required labour intensity cannot be met in the contemporary times. It has been claimed that the labour intensity has plummeted to a 0.10 from 0.65 in the recent years[19]. Recent technical advancements in the fields of labour intensive jobs are in string contradiction of the aims of this policy under this sector and thus would prove to be a failure at this front.

While there are certain challenges which need to be overcame in this policy like any other, it is observed that the policy adheres to the foundational principles of liberal economic development as discussed above and promises a lot more than what is expected out of it. However, a crucial point is that the scheme needs to be adequately supported by an integrated and holistic approach wherein the manufacturing system functions in synchronisation with the goals.

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[19] The Wire. 2021. *Why the Centre's PLI Scheme for Food Processing Sector May Not Be a Big Job Generator*. [online] Available at: https://thewire.in/economy/why-the-centres-pli-scheme-for-food-processing-sector-may-not-be-a-big-job-generator [Accessed 25 May 2021].