New Economic Reforms

New economic reforms in India refers to the neo-liberal polices introduced by the government in 1991 and in the later years. The central point of the reforms was liberalization of the economy, simplifying regulations, giving more role to the private sector and opening up of the economy to competition. New industrial policy of 1991 is the heart of the new economic reforms. The philosophy of the new economic policy was enhancing competition based upon more market orientation. During the last twenty-five years, the economic reform has produced significant impact on the economy- mostly positive.

main features of New Economic Reforms

1. **Dereservation of the industrial sector**– the industrial sector of the economy has been opened up to the private sector after the New Industrial Policy of 1991. Previously, the public sector has given reservation especially in the capital goods and key industries. Other operators- private sector and foreign investors were not allowed in these critical industries. Deregulation of the industrial sector allowed private sector operation in most of these sectors except in eight selected areas including atomic energy, mining and railways.

2. **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 or red tapism. Under the previous industrial licensing policies, private sector firms have to secure

licenses to start an industry. This has created long delays in the startup of industries. The industrial policy of 1991 has almost abandoned the industrial licensing system. It has reduced industrial licensing to fifteen sectors.

3. Opening up of the economy to foreign competition: another major feature of the economic reform measure was that it has given welcome to foreign investment and foreign technology. Opening up of the economy to foreign competition started a new era in India's economic policy with permission to FDI upto 51 per cent in selected sectors.

4. Liberalization of trade and investment: the economic reforms introduced extensive liberalization of foreign trade and foreign investment. The import substitution and import restriction policies were abandoned and instead import liberalization and export promotion policies were introduced. On the investment front, the economic reforms mark the era of capital mobility in the country. Foreign capital in the form of FDI (Foreign Direct Investment) and FPI (Foreign Portfolio Investment) were entered into our country.

5. Financial Sector Reforms: on the financial sector the government is introducing numerous measures for the deregulation as well as liberalisation of the sector. Different banking sector reforms including removal of control on interest rate and branch licensing policy liberalization were launched. Capital market reforms and money market reforms were extensive after 1994.

6. **Reforms related to the Public sector enterprises:** reforms in the public sector were aimed at enhancing efficiency and competitiveness of the sector. The public sector will be concentrating in key and strategic sectors. Government has adopted disinvestment policy for the restructuring of the public sector in the country along with several other policies.

7. **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 economic reforms were started in 1991, and they are still continuing. A major feature of economic reforms was that it was implemented in a gradual manner. The reforms were comprehensive and extensive as it covered all sectors- trade, investment, industrial sector, financial sector, public sector, fiscal sector etc. The new industrial policy introduced in 1991 is the central point of the economic reforms. In the following years, the government has introduced further policy changes for trade liberalization, financial sector liberalization and foreign investment policy changes to sustain the momentum initiated in 1991. Over the last twenty-five years, as a result of the launch of the new economic policy and its continuation, the Indian economy has undergone significant improvement and now is one of the fastest growing economies in the world. The famous BRIC report predicts that India will grow as the second largest economy by 2050. At present, India is categorized as an Emerging Market Economy (EME) along with China, Brazil, Russia etc. Even in the current crisis phase of the global economy, India's macroeconomic performance is comparatively better.

Need for Economic Reforms

- Poor Performance of the Industrial Sector
- Adverse Balance of Payments
- Rise in Fiscal Deficit
- Inflation
- The Gulf War

Examples of Economic Reforms

- Liberalisation
- Privatisation
- Globalisation

Why were Economic reforms introduced in India?

Economic reforms were introduced in India because of the following reasons:

Poor performance of the public sector

- Public sector was given a role important in development policies during 1951-1990.
- However the performance of the majority of public enterprises was disappointing.

- They were incurring huge losses because of inefficient management.

Adverse bop Or Imports exceeded exports

- Imports grew at a very high rate without matching the growth of exports.
- Government could not restrict imports even after imposing heavy tariffs and fixing quotas.
- On the other hand, Exports was very less due to the low quality and high prices of our goods as compared to foreign goods.

Fall in foreign exchange reserves

- Foreign exchange (foreign currencies) reserves, which government generally maintains to import petrol and other important items, dropped to levels that were not sufficient for even a fortnight.
- The government was not able to repay its borrowings from abroad.

Huge debts on government

- Government expenditure on various developmental works was more than its revenue from taxation etc.
- As a result, the government borrowed money from banks, public and international financial institutions like IMF etc.

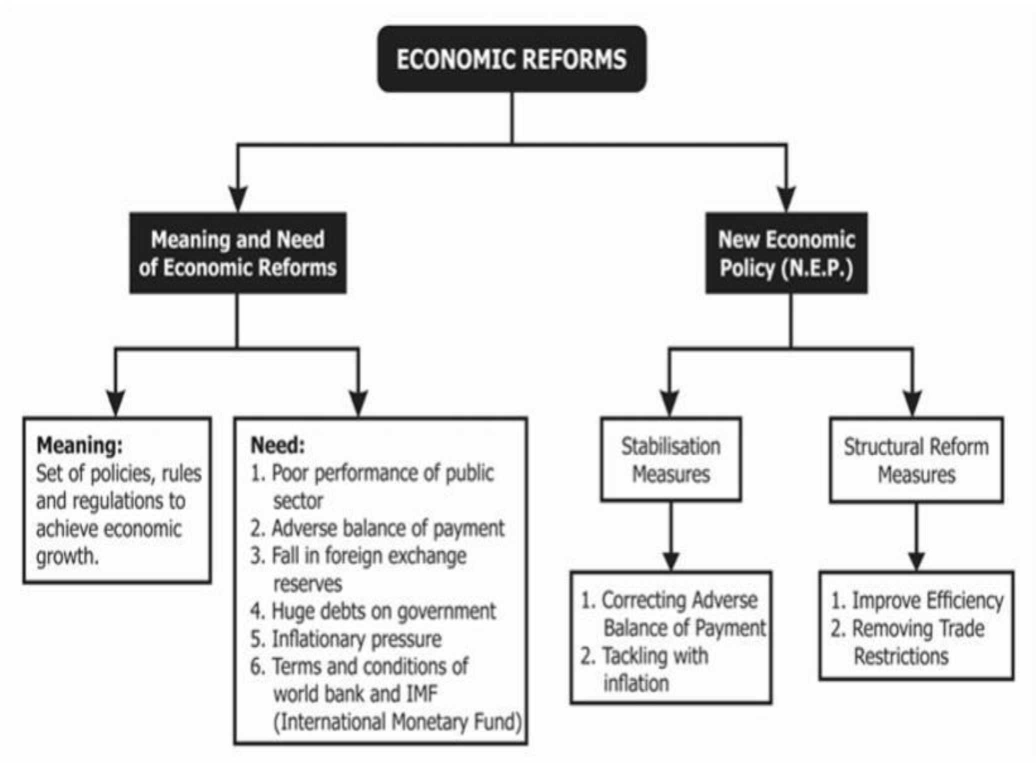
Inflationary pressure

• There was a consistent rise in the general price level of essential goods in the economy.

• To control inflation, a new set of policies were required.

Terms and conditions of world bank and IMF

• India received financial help of $7 billion from the World Bank and IMF on an agreement to announce its New Economic Policy.



Sector-specific Statutory and Regulator Reform ☟

General statutory and regulatory reform

To permit greater freedom in the nature of corporate transactions, as well as fulfil the need to lay down a clear policy and regulatory framework and ensure compliance with international obligations and to modernize Indian law, there have been significant changes made to various Indian commercial laws and regulations.

Exchange control

To prescribe a regulatory framework that moves from the regulation of exchange control (with penal consequences for non-compliance) to the management of foreign exchange, the Foreign Exchange Regulation Act 1973 was replaced with the Foreign Exchange Management Act 1999. This replacement has led to a clear distinction between capital account transactions (which are still subject to significant regulation albeit much less) and current account transactions (which have been liberalized significantly). In addition, violations of exchange control regulations result only in civil penalties and not in criminal prosecution. With this change, India has put in place the legislative framework for full convertibility of the Indian rupee on the capital account, as and when appropriate.

Transfer pricing

Transfer pricing regulations have recently been introduced in the Income Tax Act 1961, and provide that pricing of international transactions between two associated enterprises (either or both of whom are non-Indian residents) should conform with the arm's-length principle. Exhaustive and extremely wide definitions of "international transactions", "arm's-length price" and "associated enterprises" have been provided.

Detailed methods (examples being the resale price method, cost plus method etc) for calculation of the arm's-length price have been prescribed. The burden of proof is spread over the taxpayer and the revenue authorities. The revenue authorities can, only after giving the taxpayer an opportunity to explain, determine the price based on the arm's-length principle. A penalty is levied to the extent of three times the amount of tax sought to be evaded or avoided in addition to the additional tax determined to be payable.

Significant changes to securities laws

The Securities and Exchange Board of India (SEBI) was established in 1991 as India's capital market regulator and its powers have increased from time to time. Over the last 10 years, SEBI has prescribed a detailed regulatory framework on a number of issues, including:

strengthening of disclosures at the time of listing and on a continuous basis through disclosure and investor protection guidelines prescribed by SEBI and by amendments to the listing agreements with the stock exchanges;

a comprehensive takeover code which stipulates that any person who together with persons acting in concert with it acquires 15% or more, or acquires control, of a listed Indian company is required to make a public offer to the shareholders of the said Indian listed company agreeing to acquire from them an additional 20% (at least) of the total paid-up capital of the company. SEBI has set up a committee that is now in the process of amending these regulations;

Indian listed entities are now required to ensure that they have independent directors on their boards, an independent audit committee and make detailed disclosures on a variety of corporate governance issues; and while India has had stringent regulations prohibiting insider trading since 1992, the lack of an effective enforcement mechanism has seriously compromised the effectiveness of these regulations. Regulatory changes are being made to ensure that corporate India regulates itself through the appointment of compliance officers and ensuring that its employees trade within "trading windows". In addition to insider trading, regulations to prevent manipulation of the markets through unfair trade practices have been in place for some time.

Amendments to the Companies Act have been made from time to time to ensure that the company laws in India keep pace with the needs of the market. Recent years have seen amendments/regulations permitting the buy-back of shares by Indian corporates subject to a maximum of 25% of the total paid-up capital and free reserves of the company and other conditions, the issue of shares with differential rights (which were permitted only for private companies) and the issue of employee stock options. A recent amendment has empowered the government to make rules applicable to the offering of Indian depositary receipts. This is an interesting development, since the introduction of a legal framework would facilitate several companies from the Asia-Pacific region to list on Indian stock exchanges.

The most notable development in the secondary market has been the introduction of derivatives trading (futures contracts, stock index futures and stock index options) on Indian stock exchanges. In addition, internet trading has begun, with SEBI prescribing technical standards to be enforced by Indian stock exchanges for ensuring the safety and security of transactions over the internet. Finally, to achieve increased transparency in the functioning of SEBI, recent amendments have created a Securities Appellate Tribunal to consider appeals of the decisions of SEBI.

Alternate dispute resolution

The Arbitration and Conciliation Act 1996 (replacing legislation from 1940) was passed by parliament to bring India in line with international standards of commercial dispute resolution mechanisms (both arbitration and conciliation) and to provide for the enforcement of foreign arbitral awards in India under both the New York Convention and the Geneva Convention.

Electricity

The legal framework for the power sector over the years has comprised the Indian Electricity Act 1910, which deals with the transmission, supply and use of electricity, and the Electricity (Supply) Act 1948, which established three statutory bodies at the central, regional and state level to govern the generation, transmission and distribution of electricity. Parliament passed the Electricity Regulatory Commission Act 1998 recently to establish a Central Electricity Regulatory Commission and State Electricity Regulatory Commissions for the rationalization of electricity tariffs and the promotion of transparent and efficient policies. Any reform of electricity laws in India would necessarily involve the state governments, since electricity falls within the "concurrent list" of the Indian Constitution and therefore both the central and state governments have power to regulate electricity. A few states have sought to reform the state electricity boards set up under the Electricity (Supply) Act 1948 to provide for a State Electricity Regulatory Commission, and separating the board into separate companies for generation, transmission and distribution. To encourage the state governments to reform their electricity boards, preferential investment and surplus power would be made available from the central pool, only if they undertake reforms.

National highways and roads

The National Highways Act 1956 and the National Highways Authority of India Act 1988, provide the legal framework in relation to national highways and roads. The former provides the government with the power to notify any highway as a national highway. The latter establishes an authority for the development, maintenance and management of national highways. Private participation in highways is being permitted by way of rules first introduced in 1997 under the former legislation.

IT services

India has passed the Information Technology Act 2000 (IT Act) to grant legal validity to e-commerce transactions. The IT Act facilitates the electronic filing of documents with government agencies and has introduced the concept of digital signatures to be used for authentication of an electronic record. The IT Act establishes a Controller of Certifying Authorities to regulate the provisions of the Act particularly with respect to granting a "certifying authority" licence to persons who seek to issue digital signatures. The Controller may, with the previous approval of the government, recognize a foreign certifying authority for the purposes of the Act. No person has, to date, received a licence to act as a certifying authority.

Telecommunications

Legislation from the 19th century, the National Telecom Policy and licences issued by the government with respect to different telecom value-added services regulate the telecommunications industry. The development of the industry was hampered due to conflicts between the erstwhile Department of Telecommunications of the government and the Telecom Regulatory Authority of India (TRAI), which was set up to regulate the telecom sector. These conflicts have been resolved by splitting the TRAI into two bodies, one with recommendatory and regulatory functions and the other with adjudicative functions (the Telecom Tribunal). In addition, the Department of Telecom Services – the department that provided telecommunication services – was corporatized in October. This has resulted in a clear separation of policy/licensing functions and service provision functions.

The Videsh Sanchar Nigam Limited (VSNL) continues to have the exclusive monopoly to provide international long-distance telephony, though the government has decided to permit private participation by 2002. ISPs have, however, been permitted to establish international gateways. In line with India's WTO commitments, the government has also liberalized national long-distance (NLD) telephony, and guidelines for licensing are now in place. Guidelines for licensing of infrastructure providers have also been prescribed.

Media and broadcasting laws

The film sector in India has largely been unregulated and has not been entitled to access funds from the financial and banking community. Recently the government accorded the status of an "industry" to the film sector, and consequently the RBI has framed broad guidelines regarding bank finance for the production of films. Banks are now permitted to provide finance (where the total cost of production does not cross Rs100 million) to film producers (corporate or non-corporate entities) with a good track record in their relative fields.

The government has permitted the use of Ku band in India for broadcasting and has thereby opened up the market for direct-to-home (DTH) services in India. The government has also liberalized the norms for uplinking to Indian and foreign satellites (provided such satellite has been coordinated with the INSAT system) by Indian companies (foreign participation up to 49% has been permitted).

Insurance

The liberalization of the Indian insurance sector took place with the passing of the Insurance Regulatory and Development Authority Act 1999, which established the Insurance Regulatory and Development Authority, and the passing of amendments to the Insurance Act 1938. The cumulative effect of these changes has been the participation of the private sector in insurance and the breaking of the monopolies of the Life Insurance Corporation of India and the General Insurance Corporation of India, foreign participation to the extent of 26%, and empowering the authority to prescribe regulations for the conduct of insurance business in India. A number of Indian companies have entered into joint ventures with foreign insurance players and have begun offering insurance services in India.