

## **BUSINESS ENVIRONMENT**

### **UNIT-2**

### **PART-VII**

#### **NEW ECONOMIC POLICY**

Following steps were taken under the Liberalisation measure:

##### **(i) Free determination of interest rate by the commercial Banks:**

Under the policy of liberalisation interest rate of the banking system will not be determined by RBI rather all commercial Banks are independent to determine the rate of interest.

##### **(ii) Increase in the investment limit for the Small Scale Industries (SSIs):**

Investment limit of the small scale industries has been raised to Rs. 1 crore. So these companies can upgrade their machinery and improve their efficiency.

##### **(iii) Freedom to import capital goods:**

Indian industries will be free to buy machines and raw materials from foreign countries to do their holistic development.

##### **(v) Freedom for expansion and production to Industries:**

In this new liberalized era now the Industries are free to diversify their production capacities and reduce the cost of production. Earlier government used to fix the maximum limit of production capacity. No industry could produce beyond that limit. Now the industries are free to decide their production by their own on the basis of the requirement of the markets.

**(vi) Abolition of Restrictive Trade Practices:**

According to Monopolies and Restrictive Trade Practices (MRTP) Act 1969, all those companies having assets worth Rs. 100 crore or more were called MRTP firms and were subjected to several restrictions. Now these firms have not to obtain prior approval of the Govt. for taking investment decision. Now MRTP Act is replaced by the competition Act, 2002.

**1. Liberalisation**

**Removal of Industrial Licensing and Registration:**

Previously private sector had to obtain license from Govt. for starting a new venture. In this policy private sector has been freed from licensing and other restrictions.

Industries licensing is necessary for following industries:

**I. Liquor**

- II. Cigarette
- III. Defence equipment
- IV. Industrial explosives
- V. Drugs
- VI. Hazardous chemicals

## **2. PRIVATISATION:**

Simply speaking, privatisation means permitting the private sector to set up industries which were previously reserved for the public sector. Under this policy many PSU's were sold to private sector. Literally speaking, privatisation is the process of involving the private sector in the ownership of Public Sector Units (PSU's).

The main reason for privatisation was in currency of PSU's are running in losses due to political interference. The managers cannot work independently. Production capacity remained under-utilized. To increase competition and efficiency privatisation of PSUs was inevitable.

### **STEP TAKEN FOR PRIVATISATION:**

The following steps are taken for privatisation:

#### **i. Sale of shares of PSUs:**

Indian Govt. started selling shares of PSU's to public and financial institution e.g. Govt. sold shares of Maruti Udyog Ltd. Now the private

sector will acquire ownership of these PSU's. The share of private sector has increased from 45% to 55%.

**ii. Disinvestment in PSU's:**

The Govt. has started the process of disinvestment in those PSU's which had been running into loss. It means that Govt. has been selling out these industries to private sector. Govt. has sold enterprises worth Rs. 30,000 crores to the private sector.

**iii. Minimisation of Public Sector:**

Previously Public sector was given the importance with a view to help in industrialisation and removal of poverty. But these PSU's could not able to achieve this objective and policy of contraction of PSU's was followed under new economic reforms. Number of industries reserved for public sector was reduces from 17 to 2.

- a) Railway operations
- b) Atomic energy

**4. GLOBALIZATION:**

Literally speaking Globalisation means to make Global or worldwide, otherwise taking into consideration the whole world. Broadly speaking, Globalisation

means the interaction of the domestic economy with the rest of the world with regard to foreign investment, trade, production and financial matters.

### **STEPS TAKEN FOR GLOBALISATION:**

**Following steps are taken for Globalisation:**

#### **(i) Reduction in tariffs:**

Custom duties and tariffs imposed on imports and exports are reduced gradually just to make India economy attractive to the global investors.

#### **(ii) Long term Trade Policy:**

Forcing trade policy was enforced for longer duration.