DELHI PUBLIC SCHOOL MEGACITY, KOLKATA
MegaMUN 2023

All India Political Parties Meet

Agenda-Deliberating upon the future economic prospects of the country in lieu of the New Economic Policy 1991(Liberalization, Privatisation and Globalization).

The Executive Board

Chairperson - Vaanchhit Agarwal

Vice chairperson - Shubayu Chakraborty

Directors - Jayash Mall

- Aditya Bhansali

INDEX

LETTER FROM THE EXECUTIVE BOARD,

Dear Delegates,

It brings me immense pleasure to welcome you to the All India Political Parties Meet 1991. Global Finance, especially India in the late 80s embodied dynamic dilemmas, where countries struggled with not only their domestic policies but also the race to align themselves with international powers. India which had adopted a rather aggressive economic policy post independence to boost the internal growth had opened gates to foreign companies with arguably the most influential economic policy. The committee entails a diverse set of political and financial issues as we intend towards comprehensive and fruitful debate. As much content-rich the committee is, the essence of an AIPPM lies at the heart of the committee executive board, ready to embrace the drama that is to ensue. Delegates will be put in shoes of some of the most iconic politicians to have ever stepped into the Indian political stage, so as much as heated debates we expect a bit of light-heartedness will go a long way as the penultimate intention is to cherish the grand Indian politics.

Kindly do not hesitate to reach out to any of the executive board members in case of a doubt, we aim to make this a memorable and a learning experience for all.

Regards,
Vaanchhit Agarwal (Chairperson)
Shubhayu Chakraborty (Vice Chairperson)
Jayash Mall (Director)
Aditya Bhansali (Director)

COMMITTEE DESCRIPTION

An All India Political Parties Meet, often abbreviated as AIPPM, is different from the present two houses in the Indian Parliament i.e., the Lok Sabha and the Rajya Sabha. It is unlike any other body, in terms of its functions, technicalities and is also free from the legislative procedures.

As we already have two houses in the parliament, one might wonder, what is the point of such a political party meet. Many at times, coming into an apt solution becomes a major issue in parliamentary procedures as elected leaders in the parliament cannot come into a consensus for a certain issue of national interest or emergency. This not only hinders the working of the parliament, but also makes the committee a monotonous one.

It is to cater to all these issues and find apt and quick solutions without the limitation of parliamentary procedures that. This meeting not only consist of the political leaders of India but also the elected representatives from every party of India. Here, they can come together to a consensus on pertaining to an issue of national interest or emergency. The most important feature of an AIPPM is that vote of everyone is held at an equivalent position. Therefore, we can see the importance of such a committee for this agenda.

BACKGROUND OF THE COMMITTEE

Prior to the establishment of the Soviet Union, Western economies adhered to the laissez-faire philosophy, placing a high priority on the role that private investment played in the economy. Marxist policy is being adopted more frequently. Following World War II, the planned economy gained traction. throughout numerous nations, particularly developing nations that were cautious about opening up to foreigners. An indirect form of economic growth might result from investment, dominance by Western nations.

Nevertheless, by the 1970s,the globe saw convincing evidence. that is socialist nations tended to adopt capitalism development plan given that their economic growth rate was stagnating. These events led to the creation of "Washington" Consensus'. These phrases pertain to privatization in its broadest sense, many of the developing nations in 80's intended to follow planned economy models. Opposition parties in these countries heavily criticized the ruling parties for acting as pawns of International Monetary Fund and World Bank.

By 1991, India realized that neither of the two extremes –Washington consensus or the state-led planned economy – were the appropriate strategies for growth. Whereas, India being at one extreme of this scale adopted liberalization to move towards a mixed economy approach. India witnessed intense Balance of Payment Crisis in 1990 due to various reasons mainly due to inherent weakness in the economy.

HISTORY OF INDIA'S ECONOMY

1)1970's-mid 1980's:-

During the 1980s the investment-to-GDP ratio rose (investment went from about 19 percent of GDP in early 1970s to nearly 25 percent in the early 1980s) exclusively in the public sector while it fell in the private sector.

The external borrowing helped bridge the considerable gap between exports and imports and raise the total GDP growth rate. Thus, foreign borrowing made a positive contribution to growth. However it also led to a rapid accumulation of foreign debt, which rose from USD 20.6 billion in 1980–81 to USD 64.4 billion in 1989–90.

From the fiscal year 1979-80, India started facing the Balance of Payment (BoP) crisis. By the end of the 6th five year plan in 1985, India's BoP deficit rose to Rs. 11,384 crores (from a BoP surplus of Rs. 3082 crores during the 5th five year plan ending in 1978). The second oil shock of 1979 (or the 1979 oil crisis) occurred due to decreased oil output in wake of the Iranian revolution, pushing up oil prices. In 1980, following the outbreak of the Iran-Iraq War, oil production in Iran nearly stopped and Iraq's oil production was severely cut as well, pushing prices further up). This crisis was severe and the value of imports for India almost doubled between 1978-79 and 1981-82. From 1980 to 1983, there was global recession and India's exports suffered during this time.

To offset the BoP, a number of measures were taken, including external assistance in the form of loans and aids, withdrawal of SDR (Special Drawing Rights, which is the currency of the IMF) and borrowing from the IMF under the extended facility arrangement. During the mid-1980s, the BoP issue occupied a central position in India's macroeconomic management policy.

2)Major reforms of the late 1980s::-

- First, the OGL (Open General License List) list was steadily expanded: The inclusion of an item into the OGL list was usually accompanied by an "exemption", which amounted to a reduction in import tariff on that item. There were 79 capital good items in the OGL in 1976; this number gradually increased reaching 1,007 in April 1987, 1,170 in April 1988, and 1,329 in April 1990. Examples of items included in the OGL are sewing machines, chocolates and food preparations.

●Second, decline in the share of canalized imports: Canalisation refers to monopoly rights of the government for the import of certain items. Between 1980–81 and 1986–87, the share of canalized products in total imports declined from 67 to 27 percent. This was due to three reasons:

(i) Increase in domestic production of POL (Petroleum, Oil and Lubricants) leading to a decline in its imports
(ii) Success of the Green Revolution, which led to a decline in import of grains and
(iii) Decanalisation - 21 items were decanalised in April 1985 and a further 26 items were decanalised in April 1988. This change significantly expanded the room for import of machinery and raw materials by entrepreneurs.
Examples of items that were earlier canalised products include crude oil and petroleum, natural rubber, cement.

●Third, a relaxation of industrial controls, which included foreign exchange availability consideration, and removing extra layers of regulation on import.

3)Economic Situation leading to 1991:-

Towards the end of 1980s, despite these measures, external debt was rising. While the borrowing external debt helped the economy grow, it was also pushing us steadily towards a crash. As with external borrowing, high current expenditures within the country proved unsustainable. This led to a situation in extremely large fiscal deficits. By the end of 1990, it was in a serious economic crisis. The government was close to default, its central bank had refused new credit.
The 1989 budget, presented by new face, Shankarrao Chavan, (fifth Finance Minister in 4 years)did express concerns over the fiscal and current account deficits and external debt (Shankarrao Chavan). However, as the 1990 budget pointed out, little was done to remedy the situation and as with previous budgets there was significant spending overruns. Even the 1990 budget presented by Yashwant Sinha played the same blame game on the situation of external debts and wasn't able to mitigate the crisis. By the end of financial year 1990-1991 domestic public debt grew to 40% and external public debt rode from 8.7% to 12.7 % of GDP
4)Role of IMF and World Bank

Due to economic pressure internally and externally, the International Monetary Fund (IMF) suspended its loan program to India, and the World Bank also discontinued its assistance in 1990. These actions limited the government's options to address the crisis and forced it to take drastic measures to avoid defaulting on its payments..

However in 1991,IMF sanction economic package for India and Indian government saw no other avenues for economic relief and accepted emergency loans totaling $2.2 billion from the IMF. This move attained critisism as way to sell put countries to wishes of external bodies. Furthermore India had to pledge 20 tonnes of gold to Union Bank of Switzerland and 47 tonnes to Bank of England as part of the deal with the International Monetary Fund.

As per government officials it is lsaid that this is the biggest loan the I.M.F. has ever made to India, and that it would hinge on a set of conditions demanding that India reduce its budget deficit, open its markets to foreign competition, diminish its maze of licensing requirements, cut subsidies, and liberalize investment. India, which still views itself as a socialist nonaligned leader, views the potential arrangement with pain, even embarrassment.

All of these situations led to the birth of the 1991 [LPG economy policy]

NEW ECONOMIC POLICY

“Decisions shape the tree, which is history. With each root having had the possibility to go a certain way that would never benefit its own future. Therefore, every decision taken must be examined a thousand times over but never regretted once it has been taken.” A perfect situation depicted in the quote above can be said for The New Economic Policy 1991, LPG revolution of India(Liberalization, Privatization and Globalization)

What Is The New Economic Policy?

The New Economic Policy introduced in India in 24 July 1991 under the leadership of P.V Narasimha Rao is aimed at restoring macroeconomic stability. The NEP is designed to address the crisis of stagflation, which was a result of the simultaneous increase in prices for both food and manufactured goods.

It refers to economic liberalization or relaxation in the import tariffs, deregulation of markets or opening the markets for private and foreign players, and reduction of taxes to expand the economic wings of the country.

Liberalization

Definition

In simple words, liberalization refers to a relaxation of government restrictions in the areas of social, political and economic policies which become hindrances in the development and growth of the nation. In the context of economic policy, liberalization refers to lessening of government regulations and restrictions for greater participation by private entities. It is a process to removing controls systems in order to encourage economic development.

Objectives

- To increase competition amongst domestic industries.
- To encourage foreign trade with other countries with regulated imports and exports.
- Enhancement of foreign capital and technology.
- To expand global market frontiers of the country.
- To diminish the debt burden of the country.

Steps

- 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.

- Increase in the investment limit for the Small Scale Industries:

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

- Freedom to import capital goods:

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

- 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.

Privatization

Definition

Privatisation connotes a wide range of ideas. In generic terms it refers to the process of transfer of ownership from public ownership to private entity. There are largely three variants in privatization process, transfer of ownership of public enterprises, fully or partially, lead to privatization through ownership measures; management transfer with opening the market for joint ventures, policies for denationalization and liquidation of public enterprises; and inject the spirit of commercialisation and market discipline in public enterprises.

Objectives

- E Improve the financial situation of the government.
- Reduce the workload of public sector companies.
- Raise funds from disinvestment.
- Increase the efficiency of government organizations.
- Provide better and improved goods and services to the consumer.
- Create healthy competition in the society.
- Encouraging foreign direct investments (FDI) in India.

Steps

- Sale of shares of PSUs:

Indian Govt. started selling shares of PSU’s to public and financial institution e.g. Government 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 per cent to per cent.

- Disinvestment in PSU’s

The Govt. has started the process of disinvestment in those PSUs 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.

- 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 reduced from 17 to 2 (Railway operations and Atomic energy).

Globalization

Definition

In simple terms, globalization refers to integration of world under the larger umbrella of global economy. The world becomes a closer, interconnected and interdependent with respect to availability of capital, goods and services across nations. It also implies opening of local and national markets to the global players.

The term globalization refers to the integration of economies of the world through trade, investment, knowledge sharing or technology transfer. The boundaries of geographies are reduced and opportunities to collaborate for business are abundant. In Indian context, globalization refers opening up the economy to foreign direct investment by providing facilities to foreign companies to invest in different fields of economic activity.

Objectives

- Reduce customs duties and tariffs.
- Removal of restrictions on foreign trade.
- Increasing the equity limit for foreign investment.
- Partial convertibility of the Indian rupee.
- Enforce long-term foreign trade policy involving open competition.

Steps

- 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.

- Long term Trade Policy

Forcing trade policy was enforced for longer duration. Main features of the policy are:

o Liberal policy

- o All controls on foreign trade have been removed
- o Open competition has been encouraged.
- Partial Convertibility of Indian currency

Partial convertibility can be defined as to convert Indian currency (up to specific extent) in the currency of other countries. So that the flow of foreign investment in terms of Foreign Institutional Investment (FII) and foreign Direct Investment (FDI).

This convertibility stood valid for following transaction:

- o Remittances to meet family expenses.
- o Payment of interest.
- o Import and export of goods and services.
- Increase in Equity Limit of Foreign Investment

Equity limit of foreign capital investment has been raised from 40% to 100% percent. In 47 high priority industries foreign direct investment (FDI) to the extent of 100% will be allowed without any restriction. In this regard Foreign Exchange Management Act (FEMA) will be enforced.

IMPACTS OF ECONOMIC POLICY

Changes In Tax Reforms

Corporate income tax was lessened to 46% from 51.75% for public enterprises. The average customs responsibility was drastically reduced to 65% from 200%. The highest marginal rate of private income tax was lowered to 40%from 56%, in June 1991. All these were introduced in an attempt to bring in higher private stake and extensively promote import and export

Foreign Investment

One of the major aims of the new Economic Policy is promotion of rapid increase of foreign investment.

Foreign investment which was highly limited or reduced drastically in 1980's has been revamped with about 51%foreign equity investments being allowed for around for 34 industries.

Disinvestment of PSUs

One of the major attempt which the budget, economic policy and post structural changes aiming at PSU's which would allow commercial companies to acquire shares. Bidding process for PSU's is supposed to be done in the 1992-1994 cycle.

CRITICISMS OF ECONOMIC POLICY

Neglect of Agriculture

The agriculture sector has been overlooked by the new economic policy in favor of industry, trade, and services.

(i) Reduction of Public Investment: There has been a sudden decline in public investment in the agriculture sector involving irrigation, power, market ties, roads, research, and advancement.
(ii) Liberalization and Reduction in Import Duties: There have been several policy changes influencing this sector, which include (a) lowering of import taxes on agricultural goods (b) Elimination of minimum and fair support prices (c) removing quantitative constraints on agricultural products. Due to growing international competition, all of these policies have a negative impact on Indian farmers.
(iii) Removal of Subsidy: Lifting of fertilizer subsidies has increased production costs, which adversely impacts the small and marginal farmers.
(iv) Shift towards Cash Crops: Agricultural production has switched from food crops to export crops as a result of export-oriented policy measures
Low Level of Industrial Growth
Due to the Cheaper Imported Goods, there is a great flow of goods and capital from developed countries like the USA, and as a result, domestic industries are exposed to imported goods because of globalisation. The demand for domestic products is being replaced by cheaper imports, and domestic producers starting to face import competition.
Spread of Consumerism
An unfavorable trend has been driven by the new economic policy by encouraging the production of luxuries and items of superior consumption.

Conclusion

This particular agenda is open for detailed deliberation on an array of sub-topics, therefore the executive board leaves it up to the delegates to lobby and decide upon questions they want to be raised and answers they want to be answered.

AIPPM