

# Economic Reforms

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# Outline

- Pre-Independence economy
- Economic reforms
- LPG reforms
- Effect of LPG reforms

# Pre-1990 Indian Economy



# India : The Beginning

- **Pre Colonial** : Refers to the economic history of India since Indus Valley Civilization to 1700 AD. During Indus Valley Civilization Indian economy was very well developed.
- India had very good trade relations with other parts of world, which is evident from the coins of various civilizations found at the site of Indus valley.
- Before the advent of East India Company, each village in India was a self sufficient entity. Each village was economically independent.

# British Invasion

- The arrival of East India Company in India ruined the Indian economy.
- During this phase India's share of world income declined from 22.3% in 1700 AD to 3.8% in 1952.
- Two-way depletion of resources.
  - British bought raw materials from India at cheaper rates.
  - Then, the finished goods were sold at high price in Indian markets.

# Indian economy after independence

- Indian economy was influenced by the colonial experience, which was seen by Indian leaders as exploitative.
- Domestic policy tended towards protectionism, with a strong emphasis on import substitution, industrialization, economic interventionism, a large public sector, business regulation and central planning, while trade and foreign investment policies were relatively liberal.

## Per Capita Income (at constant prices)

| <u>1970-71</u> | <u>1990-91</u> | <u>2010-11</u> |
|----------------|----------------|----------------|
| <b>₹8,091</b>  | <b>₹11,535</b> | <b>₹41,129</b> |

With higher per capita income, poverty rate has dipped from 65% to 35%

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## Household Savings (₹ crore)

| <u>1970-71</u> | <u>1990-91</u>  | <u>2008-09</u>   |
|----------------|-----------------|------------------|
| <b>4,371</b>   | <b>1,04,789</b> | <b>12,61,332</b> |

India's high household savings has helped finance high tempo economic growth

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# WHAT IS NEW ECONOMIC POLICY ?



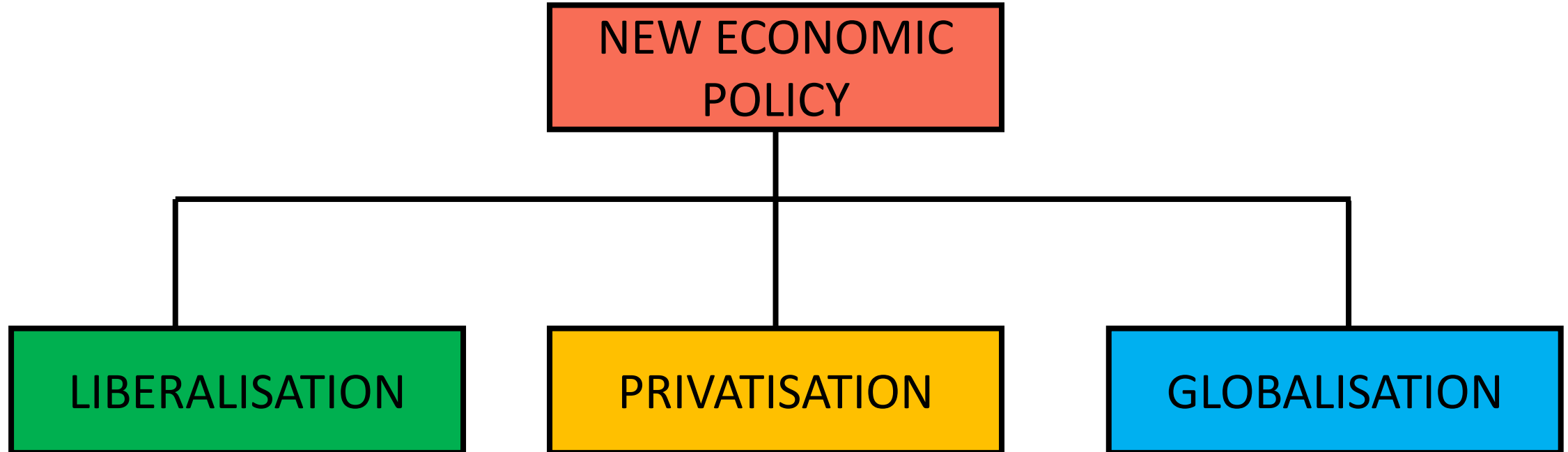
- It refers to ongoing economic liberalisation or relaxation started in 1991 of the countries economic policies
- It was introduced with the goal of making the economy more market-oriented and expanding the role of the private and foreign investment.



# Economic reforms

- Specific changes include the reduction in import tariffs, deregulation of markets, reduction of taxes, and greater foreign investment.
- The liberalization has been credited by its proponents for the high economic growth recorded by the country in the 1990s and 2000s.
- On the other hand, its opponents have blamed it for increased poverty, inequality and economic degradation.

# BRANCHES OF NEW ECONOMIC POLICY



➤ The first aspect of new economic policy was liberalisation

➤ Liberalisation of an economy means removing or relaxing government controls and restrictions on economic activities

➤ Relief for foreign investors

➤ Revaluation of Indian Currency

➤ New Industrial Policy

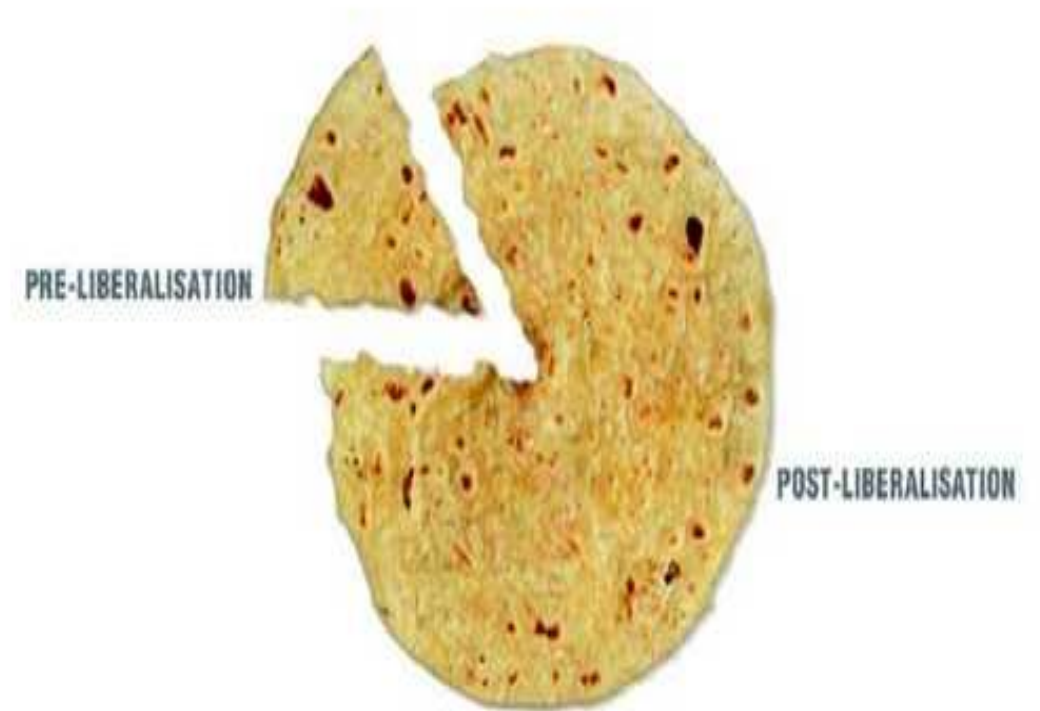
➤ New Trade Policy

➤ Import Technology

➤ Encouraging foreign tie-ups

➤ Privatisation in Public Sector

# LIBERALISATION



More jobs. Better finances. And better quality of life.

The wave of globalisation has changed the lives of millions of Indians. Here's saluting 20 years of it.

# IMPACTS OF LIBERALISATION

## POSITIVE EFFECTS

- Increase in foreign investment
- Increase in Production
- Technological advancement
- Increase in GDP growth rate

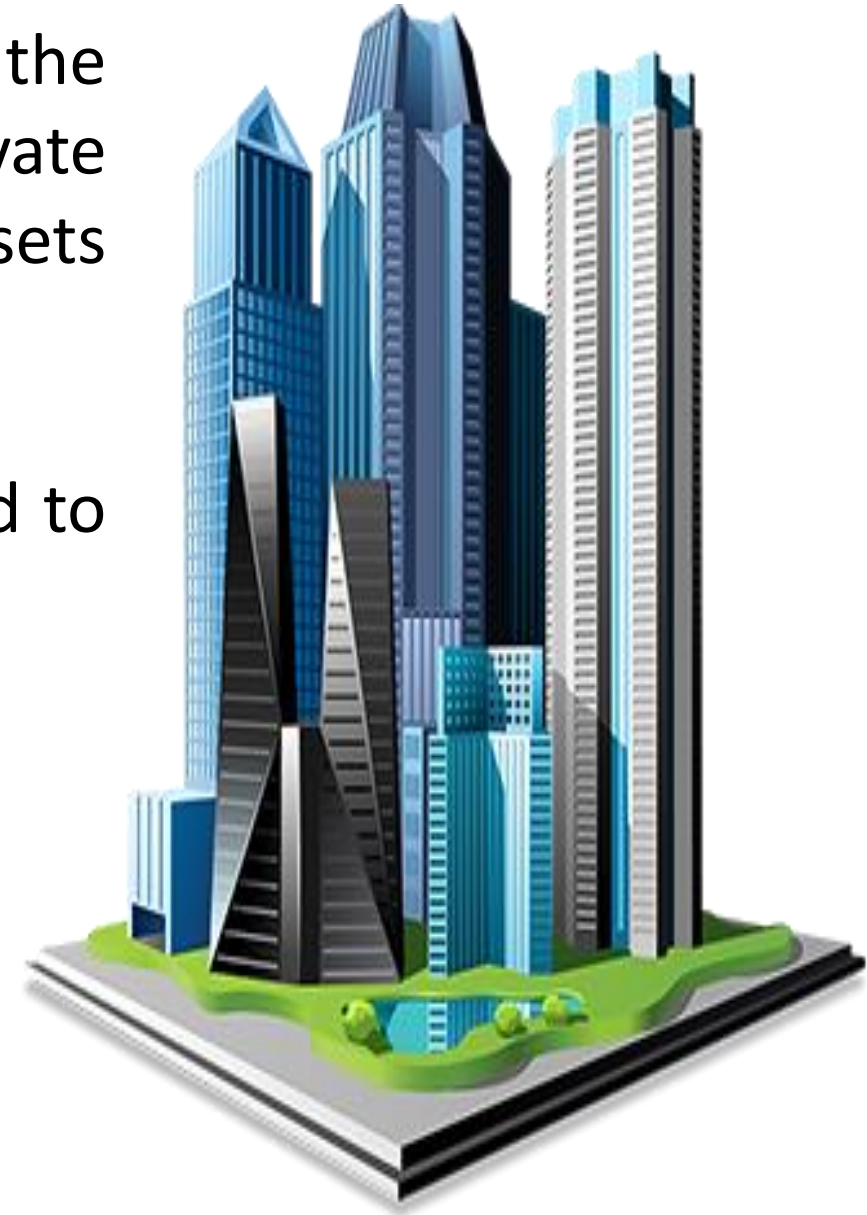
## NEGATIVE EFFECTS

- Increase in Unemployment
- Decrease in Tax Receipt



# PRIVATISATION

- According to World Bank, “Privatisation is the transfer of state owned enterprises to the private sector by sale of going concerns or by sale of assets following their liquidation “
- Increasing inefficiency on part of public sector led to privatization
- Forms of Privatization :-
  - ✓ Denationalisation
  - ✓ Joint Venture
  - ✓ Leasing
  - ✓ Franchising



# IMPACTS OF PRIVATISATION

## POSITIVE EFFECTS

- Private companies cut cost and be more efficient
- Increased competition
- More Responsive to customer complaints

## NEGATIVE EFFECTS

- Public service
- Job loss
- Privatisation is expensive





# GLOBALISATION

- Globalisation means reduction or removal of government restriction on the movement of goods and service, capital, technology and talent across national boundaries.
- It is the increasing interdependence, integration and interaction among people and cooperation in various locations around the world.



# IMPACTS OF GLOBALISATION

## POSITIVE EFFECTS

- Expansion of market
- Development of infrastructure
- Higher living standards
- International cooperation

## NEGATIVE EFFECTS

- Cut throat competitions
- Rise in Monopoly
- Take over of Domestic Firms
- Increase in Inequalities

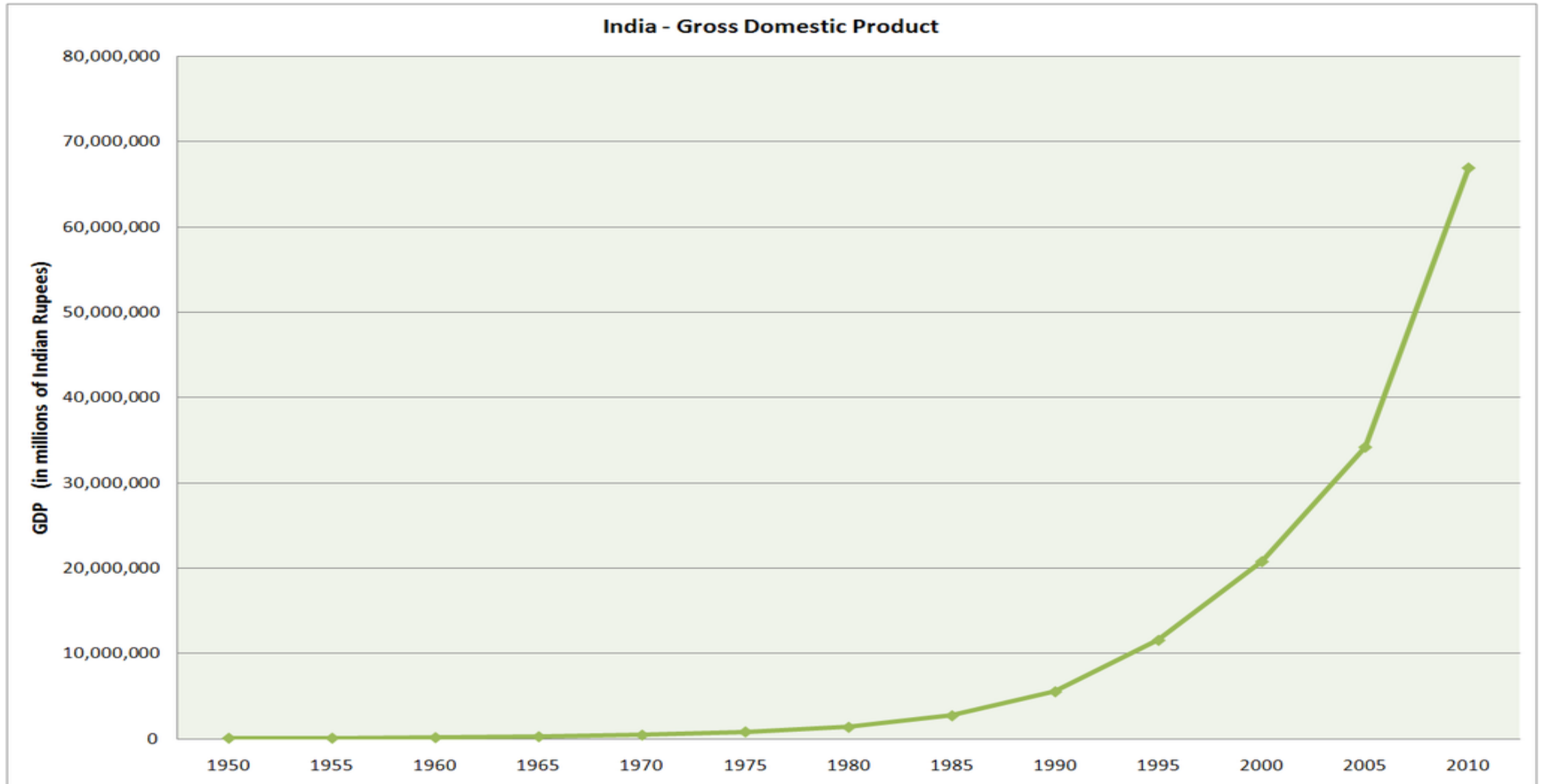




# Impact of NEP 1991 on Indian Economy

- a) Increasing Competition
- b) More Demanding Customers
- c) Rapidly Changing Technological Environment
- d) Necessity for Change
- e) Need for Developing Human Resources
- f) Market Orientation
- g) Loss of Budgetary Support to Public Sector
- h) Export a Matter of Survival

# GROWTH OF GDP POST LIBERALISATION



And then WE lived  
happily ever after...

The End.

*That's all Folks!*