

## **Bal Bharati Public School**

Pitam Pura

New Delhi

### **Chapter 3 New Economic Policy**

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Subject Economics

#### **Positive Impact of the LPG (Liberalisation, Privatisation and Globalisation) Policies**

- A vibrant economy
- A stimulant to industrial production
- A check on fiscal deficit
- A check on inflation
- Consumer's sovereignty
- Flow of private foreign investment

#### **Negative Impact of LPG (Liberalisation, Privatisation and Globalisation) Policies**

- Neglecting of agriculture
- Urban concentration of growth process
- Economic colonialism
- Spread of consumerism
- Lopsided growth process
- Cultural erosion

## **Economic Growth During Reforms**

Growth of an economy is measured by the Gross Domestic Product (GDP).

The growth of GDP increased from 5.6% during 1980-91 to 8.2% during 2007-2012.

### **Main highlights of economic growth during reforms are given below**

- During the reform period, the growth of agriculture has declined. While the industrial sector reported fluctuation, the growth of service sector has gone up. This indicates that the growth is mainly driven by the growth in the service sector.
- The opening up of the economy has led to rapid increase in foreign direct investment and foreign exchange reserves.
- The foreign investment, which includes Foreign – Direct Investment (FDI) and Foreign Institutional Investment(FII), has increased from about US \$ 100 million in 1990-91 to US \$ 400 billion in 2010-11.
- There has been an increase in the foreign exchange Reserves from about US \$ 6 billion in 1990-91 to US \$ 300 billion in 2011-12. In 2011, India is the seventh largest foreign exchange reserve holder in the world.
- India is seen as a successful exporter of auto parts, engineering goods, IT software and textiles in the reform period. Rising prices have also been kept under control.

## **Failures of Economic Reforms**

### **I- Neglect of Agriculture**

There has been deterioration in agricultural growth rate. This deterioration is the root cause of the problem of rural distress that reached crisis in some parts of the country. Economic reforms have not been able to benefit the agricultural sector because

- Public investment in agriculture sector especially in infrastructure which includes irrigation, power, roads, market linkages and research and extension has been reduced in the reform period.
- The removal of fertiliser subsidy has led to increase in the cost of production which has severely affected the small and marginal farmers.
- Various policy changes like reduction in import duties on agricultural products, removal of minimum support price and lifting of quantitative restrictions have increased the threat of\* international competition to the Indian farmers.
- Export-oriented policy strategies in agriculture has been a shift from production for the domestic market towards production for the export market focusing on cash crops in lieu of production of food grains.

### **II- Uneven Growth in Industrial Sector**

Industrial sector registered uneven growth during this period. This is because of decreasing demand of industrial products due to various reasons

- Cheaper imports have decreased the demand for domestic industrial goods.
- Globalisation created conditions for the free movement of goods and services from foreign countries that adversely affected the local industries and employment opportunities in developing countries.

- There was inadequate investment in infrastructural facilities such as power supply.
- A developing country like India still does not have the access to developed countries markets because of high non-tariff barriers.

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