FOR GOD AND COUNTRY

ST. LAWRENCE HIGH SCHOOL

IHS

A JESUIT CHRISTIAN MINORITY INSTITUTION

Study Material No. 2

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Economic Environment in India

As a part of economic reforms, the Government of India announced New Economic Policy in July 1991 for taking out the country out of economic difficulty and speeding up the development of the country.

Main features of NEP, 1991 are as follows:
1. Only six industries were kept under licensing scheme.
2. The role of public sector was limited only to four industries.
3. Disinvestment was carried out in many public sector enterprises.
4. Foreign capital/investment policy was liberalized and in many sectors100% direct foreign investment was allowed.
5. Automatic permission was given for signing technology agreements with foreign companies.
6. Foreign investment promotion board (FIPB) was setup to promote & bring foreign investment in India.
7. Various benefits were offered to small scale industries.

The three main strategies adopted for the above may be defined as follows:

1. Globalisation:

• Integrating the economy of a country with the economies of other countries to facilitate freer flow of trade, capital, persons and technology across borders. It leads to the emergence of a cohesive global economy.
• Till 1991, the Government of India had followed a policy of strictly regulating imports in value and volume terms. These regulations were with respect to
(a) Licensing of imports
(b) Tariff restrictions and
(c) Quantitative restrictions.
• NEP '91 advocated rapid advancement in technology and directed trade liberalization towards:
a. Import Liberalisation
b. Export promotion towards rationalization of the tariff structure and
c. Reforms w.r.t foreign exchange

2. Liberalisation:

Liberalising the Indian business and industry from all unnecessary controls and restrictions. That is relaxing rules and regulations which restrict the growth of the private sector and allowing the private sector to take part in economic activities that were earlier reserved for the government sector. The steps taken for this were:
a. Abolishing licensing
b. Freedom in deciding the scale of operations

c. Removal of restrictions on movement of goods and services.
d. Freedom in fixing prices.
e. Reduction in tax rates and unnecessary controls
f. Simplifying procedures for import and exports
g. Making it easy to attract foreign capital.

3. Privatization:

• Refers to the reduction of the role of the public sector in the economy of a country.
• Transfer of ownership and control from the private to the public sector (disinvestment) can be done by:
a. Sale of all/some asses of the public sector enterprises.
b. Leasing of public enterprises to the private sector.
c. Transfer of management of the public enterprise to the private sector.
• To achieve privatization in India, the government redefined the role of the public sector and –
a. Adopted a policy of planned disinvestment of the public sector
b. Refer the loss making and sick units to the Board of Industrial and Financial Reconstruction (BIFR)

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