**CHAPTER-3- ECONOMIC REFORMS SINCE 1991**

**LIBERALISATION, PRIVATISATION AND GLOBALISATION: AN APPRAISAL**

Question 1: Why were reforms introduced in India?

Answer: We know that since independence, India followed the mixed economy framework by combining the advantages of the market economic system with those of the planned economic system. But over the years, this policy resulted in the establishment of a variety of rules and laws which were aimed at controlling and regulating the economy and instead ended up hampering the process of growth and development.

The economy was facing problems of declining foreign exchange, growing imports without matching rise in exports and high inflation. India changed its economic policies in 1991 due to a financial crisis and pressure from international organizations like the World Bank and IMF.

Question 2: How Many countries are members of the WTO?

Answer: The WTO has 153 member countries.

Question 3: What is the most important function of RBI?

Answer: The most important function of RBI is to control and facilitate the financial sector of India. All the banks and other financial institutions in India are controlled through various norms and regulations of the RBI.

Question 4: How was RBI controlling the commercial banks?

Answer: All the banks in India are controlled through various norms and regulations of the RBI. The RBI decides the amount of money that the banks can keep with themselves, fixes interest rates, nature of lending to various sectors etc.

Question 5: What do you understand by devaluation of rupee?

Answer: Devaluation of rupee means decreasing rupee value in the foreign exchange market.. In 1991, as an immediate measure to resolve the balance of payments crisis, the rupee was devalued against foreign currencies. This was to boost the export and this led to an increase in the inflow of foreign exchange.

Question 6: Distinguish between the following

(i) Strategic and Minority sale

(ii) Bilateral and multi-lateral trade

(iii) Tariff and Non-tariff barriers.

Answer: (i) Strategic and Minority sale:-

A Strategic sale is generally the privatization process, where by the major stake i.e. at least 51% or more share in a government organization is sold off to the highest bidder, thereby handing over the management of the organization to the private or autonomous body.

In Minority sale the Government sell a minority stake, while retaining at least 51% of the shares along with full management control so as not to disturb the Public Sector character of the companies.

(ii) Bilateral and multi-lateral trade: -

Bilateral trade means the trade relation between the two countries, while multilateral trade is the multi countries trade relation.

(iii) Tariff and Non-tariff barriers: -

A tariff is a duty imposed on goods when they are moved across a political boundary. It is economic policy of restraining trade between nations. Tariff is usually imposed on imported goods.

Non-tariff barriers are trade barriers that restrict imports but are not in the usual form of a tariff. It may be quality conditions imposed by the importing country on the exporting countries, Sanitary and phyto-sanitary conditions, packaging conditions, Product standards etc.

Question 7: Why are tariff imposed?

Answer: A tariff is a duty imposed on goods when they are moved across a political boundary. It is one of the major sources of revenue for the Government. But they are usually associated with protectionism, the economic policy of restraining trade between nations. For political reasons, tariffs are usually imposed on imported goods, although they may also be imposed on exported goods.

Question 8: What is the meaning of quantitative restrictions?

Answer: Quantitative restrictions are specific limits imposed by countries on the quantity or value of goods that can be imported or exported. Quantitative restrictions can be in the form of a quota, a monopoly or any other quantitative means. In other words, quantitative restrictions refer to non-tariff measures, which are taken to regulate or prohibit international trade. In order to protect domestic industries, India was following a regime of quantitative restrictions on imports. This was encouraged through tight control over imports and by keeping the tariffs very high.

Question 9: Those public sector undertakings which are making profits should be privatized. Do you agree with this view? Why?

Answer: The profit making public sector undertakings are the great source of revenue for the Government but these are needed to run or manage properly otherwise these turns into a huge burden for the Government. I am not against the privatization but we need to retain some profit making public sector undertakings to check the monopoly in the market. Only thing that the government should give certain autonomy and accountability to the managements of those profit making undertakings in their workings so that they remain as the profit making units in this competitive market.

Question 10: Do you think outsourcing is good for India? Why are developed countries opposing it?

Answer: Outsourcing is good for India, since it has generated the new employment opportunities in the Indian economy, contributed in GDP and has increased the foreign reserve in the country. Developed nations are opposing it, since their people are losing their jobs due to high wage rate in their countries as compared to India, while the skill levels are more or less same.

Question 11: India has certain advantages which makes it a favourite outsourcing destination. What are these advantages?

Answer: The low wage rates and availability of skilled manpower in India have made it a favourite destination for global outsourcing. Most multinational corporations, and even small companies, are outsourcing their services to India where they can be availed at a cheaper cost with reasonable degree of skill and accuracy.

Question 12: Do you think the navaratna policy of the government helps in improving the performance of public sector undertakings in India? How?

Answer: In 1996, in order to improve efficiency, infuse professionalism and enable them to compete more effectively in the liberalized global environment, the government chose nine (later two more PSUs are given the same status) PSUs and declared them as navaratnas. They were given greater managerial and operational autonomy, in taking various decisions to run the company efficiently and thus increase their profits. Greater operational, financial and managerial autonomy had also been granted to 97 other profit-making enterprises referred to as mini ratnas.

Question 13: What are the major factors responsible for the high growth of the service sector?

Answer: The major factors responsible for the high growth of the service sector in India the low wage rates and availability of skilled manpower. The revolution in Information Technology (IT) field in India has also played a major role in the high growth of the service sector.

Question 14: Agriculture sector appears to be adversely affected by the reform process. Why?

Answer: Reforms have not been able to benefit agriculture, where the growth rate has been decelerating. 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. Further, the removal of fertilizer subsidy has led to increase in the cost of production. Moreover, since the commencement of WTO, this sector has been experiencing a number of policy changes such as reduction in import duties on agricultural products, removal of minimum support price and lifting of quantitative restrictions on agricultural products; these have adversely affected Indian farmers as they now have to face increased international competition.

Question 15: Why has the industrial sector performed poorly in the reform period?

Answer: Like the Agriculture sector, the industrial growth has also recorded a slowdown in the reform period. This is because of decreasing demand of industrial products due to various reasons such as cheaper imports, inadequate investment in infrastructure etc. Cheaper imports have replaced the demand for domestic goods. Domestic manufacturers are facing competition from imports. The infrastructure facilities, including power supply have remained inadequate due to lack of investment.

Question 16: Discuss economic reforms in India in the light of social justice and welfare.

Answer: If the economic reforms have given us an opportunity in terms of greater access to global markets and high technology, it has also compromised the welfare of people belonging to poor section. The crisis that erupted in the early 1990s was basically an outcome of the deep rooted inequalities in Indian society and the economic reform policies initiated as a response to the crisis by the government, with externally advised policy package, further aggravated the inequalities. Further, it has increased the income and quality of consumption of only high-income groups and the growth has been concentrated only in some select areas in the services sector such as telecommunication, information technology, hospitality etc.

**Extra Questions:**

1. What are the three elements of New Economic Policy?

A. Liberalization, privatization and Globalisation are the three elements of NEP.

2. What do you understand by Liberalization of the economy?

A. Liberalization of the economy means its freedom from direct or physical controls imposed by the government.

3. Define Privatization and Globalization.A. Privatization is the general process of involving the private sector in the ownership or operation of a state owned enterprise.

Globalization is a process associated with increasing openness, growing economic interdependence and deepening economic integration in the world economy.

4. What are Economic Reforms?

A. All those measures which aim at making the economy more efficient competitive and developed.

**Main Economic Reforms are:**

Industrial Sector reforms: (a) Abolition of industrial licensing (b) De-reservation of production areas (c) expansion of productive capacity (d ) freedom to import capital goods.

Financial Sector Reforms: Competition to replace control. Reserve Bank of India playing the role of a facilitator in place of a regulator.

Fiscal Reforms: Emphasis on simple and moderate tax structure and setting up a common national market.

External Sector Reforms: (a) Foreign exchange reforms: value of Indian rupee in terms of currencies of other countries to be determined by the market forces.

(b) Foreign trade policy reforms: Abolition of import quotas, abolition of import licensing, reduction in import duty and withdrawal of export duty.

**Advantages of Globalization**

Goods and people are transported with more easiness and speed

* the possibility of war between the developed countries decreases
* free trade between countries increases
* global mass media connects all the people in the world
* as the cultural barriers reduce, the global village dream becomes more realistic
* there is a propagation of democratic ideals
* the interdependence of the nation-states increases
* as the liquidity of capital increases, developed countries can invest in developing ones
* the flexibility of corporations to operate across borders increases
* the communication between the individuals and corporations in the world increases
* environmental protection in developed countries increases

**Disadvantages of Globalization**

So what's the harm if the entire world is coming together on a common platform? Why are we even discussing whether [is globalization good or bad](http://www.buzzle.com/articles/is-globalization-good-or-bad.html)for the world? As we said earlier, everything has a good side and a bad side. The bad side of globalization, what we refer to as globalization disadvantages, predominantly revolve around the fact that preferences differ from nation to nation, and coming to a consensus on any issue becomes more difficult when too many nods are required. When it comes to globalization, the difference between the rich and poor nation can be a major hindrance. Even though the richer nations will try to assimilate and help poor nations come up, they will not sacrifice on their national interests willingly. Given below are some of the [bad effects of globalization](http://www.buzzle.com/articles/bad-effects-of-globalization.html) which have sparked off the debate on this concept.
**Economic Problems:** If the entire world becomes a global village, any sort of economic disruption in one nation will have a disastrous impact on various other nations which are closely related to it in terms of trade and commerce. It will be a domino-effect wherein disturbance in one economy would result in disturbance in another, and so on!
**Cultural Problems:** [Culture and globalization](http://www.buzzle.com/articles/culture-and-globalization.html) also seem to be at the loggerheads. Critics of globalization are also of the opinion that it will will hamper the age old cultures which have been followed religiously all over the world. There are many countries in the world which would never agree to compromise when it comes to culture or religion. Migration will become even easier, and the influence of local cultures and traditions will slowly start to wear down. Incessant westernization of Southeast Asian nations has already put western cultural beliefs and traditions under the scanner in these countries.
**Unemployment:** One may feel that globalization is promoting employment, but the fact is exactly reverse of this is happening, especially in developed countries wherein people are losing jobs as a result of outsourcing. Several major companies from the United States and United Kingdom have outsourced their jobs to the developing nations in Asia, this has in turn resulted in [unemployment](http://www.buzzle.com/articles/unemployment/) in these countries.
**Spread of Diseases:** Increase in flow of people will also result in spread of diseases, and thus make people more vulnerable to health issues. We do have many examples in history wherein outbreak of a particular disease happened in some part of the world, and before we could realize it spread throughout the world.