



**ST. MARY'S CO-ED SCHOOL, HARDA**

**CLASS - XII ( 2020-2021)**

**INDIAN ECONOMIC DEVELOPMENT**

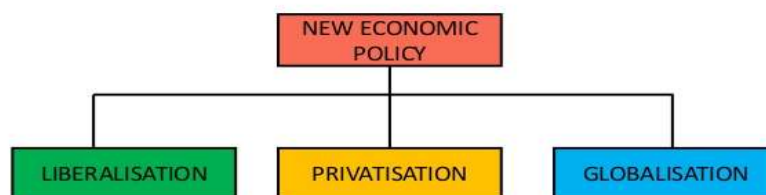
**CHAPTER – 3**

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

**IMPORTANT POINTS OF THE CHAPTER**

- 1) The year 1991 saw a financial crisis on the government that acted as a catalyst for economic reforms. The crisis was due to several factors like the gulf war that pushed up oil prices and lower remittances from gulf, foreign reserves at all time low, hyperinflation occurring at the same time.
- 2) This forced the government to launch a new set of economic policy measures was needed to combat these. The government approached the International Bank of Reconstruction and Development [I.B.R.D] or World Bank and the International Monetary Fund [ I.M.F ] to give a loan. The financial assistance came with a rider to open up the economy and remove restrictions on the private sector. This set of measures was announced in 1991 as the New Economic Policy.

**BRANCHES OF  
NEW ECONOMIC POLICY**



### 3) Liberalisation

- All commercial banks were now free to fix their interest rates. This was previously done by the RBI.
- Investment limit for small-scale industries was increased to Rs. 1 Crore.
- Indian industries were given the freedom to import capital goods.
- Companies were given the freedom to expand and diversify their production capacities based on market requirements. Previously, the government used to fix the maximum limit of production capacity.
- Restrictive trade practices were abolished. Licensing was removed in the private sector and only a few industries were required to obtain licenses, namely, liquor, cigarette, industrial explosives, defence equipment, hazardous chemicals and drugs.

### 4) Privatisation

- Under this, many public sector undertakings (PSUs) were sold to private players.
- PSU shares were sold to private players.
- PSUs were disinvested.
- The number of industries reserved for the public sector was reduced to 3 (mining of atomic minerals, railway and transport, and atomic energy).

### 5) Globalisation

- Tariffs were reduced – reduction of customs duties in import and export to attract global investors.
- Foreign trade policy was for the long-term – Liberal and open policy was enforced.
- The Indian currency was made partially convertible.
- The equity limit of foreign investment was increased.

6) The World Trade Organization (WTO) is an international institution that oversees the global trade rules among nations. It superseded the 1947 General Agreement on Tariffs and Trade (GATT) created in the wake of World War II.

7) The WTO is based on agreements signed by the majority of the world's trading nations. The main function of the organization is to help producers of goods and services, exporters, and importers protect and manage their businesses. As of 2019 the WTO has 164 member countries, with Liberia and Afghanistan the most recent members, having joined in July 2016, and 23 “observer” countries.

### **ANSWER THE FOLLOWING QUESTIONS:**

Question 1. India has certain advantages which makes it a favourite outsourcing destination. What are these advantages?

Answer. India is a favourite outsourcing destination. The advantages that India has are:

- (a) India can provide a ready supply of skilled people at relatively lower price.
- (b) India has the advantage of time difference as it is located on the other side of the developed countries.

Question 2. What are the major factors responsible for the high growth of the service sector?

Answer. There has been high growth of the service sector in India. There is too much demand for services because :

- (a) It is more profitable to contract services from developing countries.
- (b) There is easy availability of skilled manpower at lower wage rate.

Question 3. Why are tariffs imposed?

Answer. Tariffs are imposed on imports to make them relatively expensive. This will protect domestically produced goods.

Question 4. What is the meaning of quantitative restrictions?

Answer. Quantitative restrictions refers to non-tariff barriers imposed on the amount of imports and exports.

Question 5. Why were reforms introduced in India?

Answer. In 1991, economic reforms were introduced in India because 1991 was the year of crisis for the Indian economy. It is clear from the following facts:

- (a) National income was growing at the rate of 0.8%.
- (b) Inflation reached the height of 16.8%.
- (c) Balance of payment crisis was to the extent of 10,000 crores.
- (a) India was highly indebted country. It was paying 30,000 crores interest charges per year.
- (e) Foreign exchanges reserves were only 1.8 billion dollars which were sufficient for three weeks.
- (f) India sold large amount of gold to Bank of England.

- (g) India applied for the loan from World Bank and IMF to the extent of 7 billion dollars.
- (h) Fiscal deficit was more than 7.5%.
- (i) Deficit financing was around 3%.
- (j) Trade relation with Soviet block had broken down.
- (k) Remittances from non-residence Indians stopped due to war in Arab countries.
- (l) Price of petroleum products was very high.

Question 6. How many countries are members of the WTO?

Answer. At present there are 149 countries which are members of WTO.

Question 7. What is the most important function of RBI?

Answer. There was a substantial shift in role of the RBI from 'a regulator' to 'a facilitator' of the financial sector. Earlier as a regulator, the RBI would itself fix interest rate structure for the commercial banks. After liberalisation in 1991, RBI as a facilitator would only facilitate free play of the market forces and leave it to the commercial banks to decide their interest rate structure. Thus, with liberalisation competition prevails rather than controls.

### QUESTIONS FOR SELF ASSESMENT

Q.1 Describe in detail about the arguments regarding Privatisation.

Q.2 Explain in brief, the various reasons for criticism against the economic reforms ?

Q.3 What are the important reforms introduced in the foreign exchange market ?

Q.4 What do you understand by the devaluation of a rupee ?

Q.5 What do you mean by the structural measures under the New Economic policy ?