1. What was the need of Economic Reforms?

Since the early days of independence, we were accustomed to a highly protected economy. The main instruments of our pre-1991 economic policy were :–

(i) Trade and exchange controls,

(ii) Selective access to foreign investment,

(iii) Discretionary control on industrial investment and capacity expansion,

(iv) Dominance of public sector in industrial activity, and

(v) Public ownership and regulation of the financial sector.

In this way we protected our economic enterprises, our investment, our currency, our commodity and capital markets, and our trade. The consequences were recurrent fiscal deficits, heavy external/internal debt burden, low capital formation, self-perpetuating subsidies, low inflows of technologies, low competitiveness and low productivity levels. The Indian economic scenario in 1991 was very much depressing as the economy was on the brink of collapse. Inflation was out of control, exports were declining, foreign exchange reserves had declined to no more than two weeks' imports and industry was virtually crippled. The sum total picture which emerged, after four decades of planning was of a stagnant and sick India.

To revive, the government introduced economic reforms in the country which were as follows :–

(i) Industrial reforms
(ii) Financial reforms
(iii) External sector reforms
(iv) Fiscal policy reforms.

2.	What reforms were under taken in the Industrial sector?

The Industrial policy 1991 was announced on July 24, 1991. The aim of the industrial policy was to free the Indian industrial economy from the clutches of unnecessary bureaucratic control, to introduce liberalisation, to remove restrictions on direct foreign investments and to remove the restrictions of MRTP.

The main features of industrial policy 1991 are as follows :–

1. **Industrial Licensing Policy :**

(i) ***Delicensing:*** The NIP 1991 has abolished the licensing policy except for 15 industries, which have basic and strategic importance. These 15 industries are :–

(a) Coal & lignite
(b) Petroleum and its distillation products.
(c) Distillation and brewing of alcoholic drinks.
(d) Sugar
(e) Animal fats and oils
(f) Cigar & cigarettes of tobacco.
(g) Asbestos and asbestos based products.
(h) Plywood, veneers & other decorative wood based product.
(i) Tanned or dressed fur skins
(j) Paper and Newsprint
(k) Electronic aerospace & defence equipment
(l) Industrial explosives
(m) Hazardous chemicals
(n) Drugs & pharmaceuticals
(o) Entertainment electronic.

(ii) ***Reservation for Public Sector:*** The following industries are reserved only for public sector enterprise and not open for private sector.

(a) Arms & ammunition and allied items of defence equipments.
(b) Atomic energy
(c) Coal & lignite
(d) Mineral oils
(e) Minerals specified in the schedule to the Atomic Energy order, 1953.
(f) Railway Transport.

(iii) ***Industrial Location Policy:*** The NIP 1991 libralised the location policy. It is no longer required to get approvals from the Central Government for that city whose population is less than/million (except for industrial items of compulsory licensing). For cities with population of more than 1 million industries of polluting nature will now be located outside 25 km of the periphery of the city.

(iv) ***Exemption from registration:*** As per NIP 1991 the entrepreneurs are freed from the registration schemes such as DGTD registration, De-licensed registration exempted industries registration etc. These registration schemes were abolished and the enterpreneurs have to file only an information memorandum for setting up new projects or expansion of existing units.

(v) ***Automatic clearance of import of capital goods:*** The NIP 1991 gave approval for the import of capital goods where foreign exchange availability is ensured through foreign equity. A new scheme was enforced in April 1992 whereby automatic clearance for import of capital goods up-to 25% value of plant and equipment was to be provided to the importers.

2. **Foreign Investment Policy :** The attitude of NIP towards foreign investment and advanced technology was liberal. The measures were :–
   (i) Approval for direct foreign investment up–to 51% foreign equity in 48 high priority industries. But such approval is to be granted only if the foreign equity covers the foreign exchange requirement for imported capital goods.
   (ii) Approval for holding 51% foreign equity for trading companies primarily engaged in export activities.
   (iii) Constitution of a special empowered board to negotiate with a large number of international firms for approving direct investment in select areas.
   (iv) In order to balance the outflow of dividend by export earnings the payment of dividend to be monitored by R.B.I.

3. **Foreign Technology Agreement Policy :** NIP 1991 aimed at bringing about a technological advancement in the country. The measures were :–
   (i) No approval is required for hiring of foreign technologies, foreign testing of development technology.
   (ii) No approval is required for technology agreements in industries if no payment is required.
   (iii) Automatic approval for technology agreements in high priority industries up-to a lumpsum payment of 1crore, 5% royalty for domestic sales, 8% for exports, subject to payment of 8% of sales for 10 years from the date of agreement or 7 years from the date of production.

4. **Public Sector Policy :** One of the objectives of industrialisation after independence was the setting up of public sector enterprises. The NIP 1991 stressed on the need of improving the condition of public sector by increasing efficiency and making it technologically strong.
   The measures were :–
   (i) The power of Board of Directors to be enhanced.
   (ii) A part of Government's shareholding to be offered to mutual funds, financial institutions etc in order to motivate wider public participation.
   (iii) The sick industries to be referred to BIFR for their revival under revival rehabilitation schemes.
   (iv) To review the public sector investment portfolio with a view to focus on strategic, high tech and essential infrastructure.

5. **MRTP Act :** The NIP proposed to amend MRTP Act to remove the threshold limit of assets in respect of MRTP companies and dominant undertaking (such as Tata group, Reliance Group etc.) It also aims at controlling and regulating monopolistic restrictive and unfair trade practices.

3.	**What were the reforms in Banking sector under Financial Reforms ?**

Some recommendations were made by the Chakrawarty Committee in 1985 for improving the performance of the banking sector. However, the government lacking initiative didn't carry out reform measures earnestly. In 1991, the situation, was different. The country was caught into a deep economic crisis. The government at this juncture decided to introduce comprehensive economic reforms. The banking sector reforms were part of this package. The government also appointed the Committee on Banking Sector Reforms under the chairmanship of M. Narasimham which submitted its report in April 1991 and 1998. These reports are landmark documents and have influenced greatly the banking sector reforms during the past few years.

Recommendations of the Narasimham Committee, 1991

1. **On directed investment :** The Narasimham Committee 1991, gave recommendations regarding SLR and CRR as follows :–
   (i) The government should reduce the SLR from the present (1991) 38.5% of the net demand and time liabilities of banks to 25% over the next five years, so as to leave more funds with banks for allocation to agriculture, trade etc. The committee further recommended that the government borrowing rates should be progressively market related and that these higher rates would help banks to increase their income from SLR investments.
   (ii) The Narasimham Committee, 1991, recommended that the RBI should rely on open market operations increasingly and reduce its dependence on CRR (Cash Raserve Ratio). CRR should be progressively reduced from the present high level of 15% to between 3 and 5%. RBI should pay interest on impounded deposits of banks above the basic minimum at a rate of interest equal to the level of bank's one year deposits.
2. **On directed credit programmes :** The Narasimham Committee 1991 recommended that the system of directed credit programme should be gradually phased out sector, etc. The directed credit programme for this "redefined" priority sector should be fixed at 10% of the aggregate bank credit.
3. **On the structure on interest rates :** The Narasimham Committee, 1991, recommended that the level and structure of interest rates in the country should be broadly determined by market forces. All controls and regulations on interest rates on lending and deposit rates of banks and financial institution for debentures and company deposits, etc. should be removed.

   The committee, further proposed that RBI should be the sole authority to simplify the structure of interest rates. The bank rate should be the anchor rate and all other interest rates should be closely linked to it.
4. **On structural reorganization of the banking structure :** To bring about greater efficiency in banking operations, the Narasimham Committee 1991, proposed a substantial reduction in the number of public sector banks through merger and acquisitions. According to the committee, the broad pattern should consist of :–
   (i) 3 or 4 large banks (including the State Bank of India) which could become international in character.
   (ii) 8 to 10 national banks with a network of branches throughout the country engaged in general or universal banking.
   (iii) Local Banks whose operations would be confined to a specific region; and
   (iv) Rural banks including RRBs whose operations would be confined to the rural areas and whose business would be predominantly engaged in financing of agriculture and allied activities.

Measures Undertaken :

(i) Statutory liquidity ratio (SLR) : On incremental net, demand and time liabilities(DTL) has been reduced from 38.5% to 25% and; SLR on outstanding net domestic demand and time liabilities has been reduced from 38.5% to 27% in March 1997 gradually and 25% in October 1997.

(ii) RBI reduced CRR gradually from 15% to 4.5% in April 2003. The purpose of reducing CRR was to release funds locked up with RBI for lending to industrial and other sectors which were starved of Bank Credit.

(iii) Interest rate slabs were gradually reduced from 20% to 2% by 1994-95. The important changes in interest rates since 1991-92 are as follows :–

(a) Interest rate on domestic term deposits has been decontrolled;

(b) The prime lending rate of SBI and most other banks on general advances of over Rs.2 lakh has been reduced. Presently this ranges between 10.5 to 11.5%.

(c) Rate of interest on bank loans above Rs. 2 lakhs has been fully decontrolled

(d) The interest rates on deposits and on advances of all co-operative banks, excepting urban co-operative banks, have been deregulated subject to a minimum lending rate of 13% (earlier it was 12%).

(iv) Prudential norms have been started by RBI as part of the reformative process. The purpose of prudential system of recognition of the income, classification of assets and provisioning of bad debt is to ensure that the books of the commercial banks reflect their financial position more accurately and in accordance with internationally accepted accounting practices. Those will help in more effective supervision of banks.

(v) Capital adequacy norms were fixed at 8% by RBI in April 1992 and banks had to comply, with them over a three year period. By end March 1996, all public sector banks had attained capital to risk weighted asset ratio of 8%. The full norm of 8% was also attained by foreign banks in India and by some Indian banks. Accepting the recommendation of the Narasimham Committee (II), it was decided to raise CRAR from 8% to 10%. As at end March 2002, majority of banks in India have CRAR above 10% mark.

The government of India has amended the Banking Companies (Acquisition and Transfer of Undertakings) Act to enable the nationalised banks to access the market for capital funds through public issues, subject to the provision that the holding of the Central Government would not fall below 51% of the paid-up capital.

Supervision of commercial banks is being tightened by RBI, specially after the securities scam of 1992. RBI has set up a Board of Financial Supervision with an Advisory Council under the Chairmanship of the Governor to strengthen the supervisory and surveillance system of banks and financial institutions. RBI has also established in December 1993 a new department known as department of supervision as an independent unit for supervision of commercial banks and to assist the Board of Financial Supervision.

The Government of India passed "Recovery of Debts due to Banks and Financial Institution Act 1993" in order to facilitate and speed up the recovery of debts due to the banks and financial institutions. Six special Recovery Tribunals have been set up at Kolkata, New Delhi, Jaipur, Ahmedabad, Bangalore and Chennai to facilitate quicker recoveries of loan arrears within six months and an Appellate Tribunal has also been set up in Mumbai.

Top 10 Banks' Profits Soar 27%, Dividends 35% : The financial year 2003-04 has been rather fruitful for the banking industry, with profits continuing to soar. For the top 10 banks (on the basis of asset size) in the country, the profit figure has clocked a growth of 27% in 2003-04 over the previous year. More so, banks are more than willing to share their pie with their shareholders, as dividends declared for Financial Year-04 have grow on average by 35%. Operating profits (total income minus total expenses) have also increased for the top 10 banks in the industry by 25% in the last financial year.

1. What are the strategies of New Economic Policy 1991?

New Economic Policy 1991 brought about a lot of changes and introduced a series of policy measures to reform the Indian economy. The main objectives are :–

(i) To bring about an improvement of productivity and efficiency of the economy.
(ii) To deal effectively with several problems like rising price, shortage of adequate capital, slow speed of economic growth and development etc.

The three main strategies of our New Economic Policy are :–

1. Liberalisation
2. Privatisation
3. Globalisation

2. What is Liberalisation?

To liberalise means to liberate. Liberalisation thus implies to liberate the trade and industry from unwanted Government control and restrictions.

Objectives of Liberalisation :–

The main objectives of liberalisation are as follows :–

(i) To free the Indian industry from needless controls;
(ii) To release the growth-promoting entrepreneurial energies;

(iii) To provide the rightful control for market mechanism;
(iv) To get rid of unnecessary delays due to red tapism
(v) To produce variety of goods;
(vi) To upgrade technology;
(vii) To develop international competitiveness.

Elements of Liberalisation : The policy of liberalisation is the freedom for the entrepreneur to enter any industry / trade / business. Barring a few almost all area are opened to the private sector enterprises. Private sector is allowed to enter those industrial activities which were earlier reserved only to public sector. Industries which continue to be reserved for the public sector are in areas of security and strategic concerns. The regime of controls and regulations has been removed and the economic operations have been liberalised on all counts.

(a) Industrial licensing has been abolished for all items except a short list of 18 industries.
(b) No prior permission is required for the expansion of existing units.
(c) There is no need for prior approval by large companies for capacity expansion or diversification.
(d) A number of restrictions on foreign investment and foreign technology have been withdrawn.
(e) Regulations in regard to price and distribution have also been withdrawn.

3. What is Privatisation?

Meaning of privatisation : Privatisation in a process by which the government transfers the productive activity from the public sector to the private sector. In India, after Independence, the main emphasis has been laid on the establishment of PSUs. But many problems cropped up due to inefficient management and lack of profitability in the public sector. The viewpoint of the planners has changed due to unsatisfactory working of PSUs. They began to recommend the process of Privatisation for achieving instant success. Privatisation in the process of increasing involvement of private entrepreneurs in the working of PSUs.

Arguments in favors of Privatisation :–

(i) The process of Privatisation introduces the 'Profit-oriented' decision making process in the working of the enterprise leading to improved efficiency and performance. Moreover, private ownership establishes a market for manager, which improves the quality of management.
(ii) It is observed that, the personnel in the public enterprises cannot be held responsible for any lapse due to lack of clarity in the areas of responsibility. Privatisation makes this possible and prevents the officials from passing the buck.
(iii) As against the public sector firms, the private sector firms are subject to capital market disciplines and scrutiny by financial experts. In fact, the ability to raise funds in the capital market is crucially dependent on performance. Hence privatisation makes it necessary for the P S U s to improve their performance in order to have access to credit and budgetary support.
(iv) Privatisation minimizes the effect of political interference which becomes unavoidable in case of PSUs. Many a times governments impose non-economic objectives on PSUs.
(v) Privatisation infuses spontainity in decision- making. In the PSUs delayed decision-making becomes a part of their managerial process which leads to inefficient decisions and increased cost as well.
(vi) Privatisation, in a way, is an effort to improve managerial efficiency in public enterprises. According to **Bimal Jalan**, efforts to improve managerial efficiency in PSUs by administrative

measures are generally short-lived and unsustainable as, sooner or later, political considerations take precedence over economic or commercial considerations.

(vii) The very survival of private sector enterprises depends on customer satisfaction. Since only such satisfaction can ensure more widespread and repeat buying. As against this, so the argument goes, caring for the customer is generally not a priority with the PSUs. Once Privatisation occurs, the need to create and sustain markets will lead to a sea change in the attitude of these enterprises towards customers. Hence, quality of services will improve.

Argument against privatisation and disinvestment :

The policy of Privatisation and disinvestment has been criticised on the following grounds :–

(i) ***Undervaluation of assets:*** The performance on the disinvestment front over the period 1991-92 to 2002-03 has been dismal. Only in three years 1991-92, 1994-95, and 1998-99 the targets for disinvestment were exceeded. This was due to the decision to accept extremely low bids for share 'bundles', which included equity from PSUs which would have otherwise commanded a handsome premium. In 1994-95 success was due to the off loading of a significant chunk of shares.

(ii) ***Failure to provide essential services:*** It is often assumed that following Privatisation, markets arise quickly to fill up the gap whereas the fact is that many Government activities arise because markets have failed to provide essential services.

(iii) ***Unemployment:*** One of the genuine fears of labour is that privatisation is bound to result in unemployment. Most of the privatisation experiments around the globe are testimony to the fact that this indeed does happen. The fear of retrenchment and consequent unemployment is all the more as there is no safety net scheme for labour worth the name.

(iv) ***Private monopoly:*** At times, sale of a PSU to a private company can only result in the substitution of a public monopoly by private monopoly. In such cases inefficiency and monopoly power will merely be transferred to the privates sector with the costs being borne by the consumers. This danger is particularly present in the case of public utilities.

(v) ***Under valuation:*** Under valuation points to the prevalence of widespread corruption on the one hand, and complicity between sections of the govt. and particular business groups on the other hand.

4. What is Disinvestment?

Disinvestment in one of the most important methods of privatisation, under this method, government's equity are sold out to private entrepreneurs. In 1992, Dr. Manmohan Singh, the then finance minister, set out the process of disinvestment under the New Industrial policy 1991.

Background: The economy faced a financial crunch during the 1981-91. There was chronic deficiency in the budgets and the meagre revenue, which was earned, could hardly be used by the PSUS properly. Such severe conditions forced the government to adopt the policy of disinvestment and unload the PSU shares in the market. Such disinvestment besides strengthening the PSUS, was also advocated as it would help in modernizing, diversifying and giving a boost to the slack economic condition.

Objectives of Disinvestment : The current direction of privatisation policy is summarised in a suo-motu statement laid in both the Houses of Parliament on December 9, 2002,Government has announced its policy that the main objective of disinvestment is to put national resources and assets to optimal use and in particular to unleash the productive potential inherent in our public sector enterprises. The policy disinvestment specifically aimed at :–

(i) Modernization and upgradation of Public Sector Enterprises.
(ii) Creation of new assets.
(iii) Generation of employment.
(iv) Retiring of public debt.
(v) To ensure that disinvestment does not result in alienation of national assets, which through the process of disinvestment, remain where they are. It will also ensure that disinvestment does not result in private monopolies.
(vi) Setting up a Disinvestment Proceeds Fund.
(vii) Formulating the guidelines for the disinvestment of natural asset companies.
(viii) Preparing a paper on the feasibility and modalities of setting up Asset Management Company to hold, manage and dispose the residual holding of the government in the companies in which government equity has been disinvested to a strategic partner.
(ix) Government is taking the following specific decisions :–
 (a) To disinvest through sale of shares to the public in Bharat Petroleum Corporation Limited (BPCL).
 (b) To disinvest in Hindustan Petroleum Corporation Limited (HPCL) through strategic sale.
 (c) To allot, in both cases of BPCL and HPCL, a specific percentage of shares to the employees of the two companies at a concessional price.

Methods of Privatisation : The methods of privatisation used by the government are possibly one or a combination of the following methods :–

(i) ***Initial public offerings (IPOs) :*** The shares of public sector undertakings (PSUs) are sold to the retail investors and institution, under this method. The government may, in some cases, sell shares of a PSU in international market also. IPO method ensures wide participation of retail investors and thus helps in a broad-based control of the public sector entity at the same time as it helps in the widening and deepening of the capital market.
(ii) ***Strategic sale :*** The government sells its share in the public sector undertakings to a strategic partner, under the strategic sale method. The management passes over to the buyer, consequent upon the concerned government action.
(iii) ***Sale to foreigners :*** Under this strategic sales method, equities, stakes are sold to a foreign company, not to a domestic company. The amount of domestic private capital is limited in small countries. Expecting world class technology, expertise and huge capital from foreign companies to run the PSU, the government sells its stakes to a foreign company.
(iv) ***Management-employee buyouts :*** Managements and employees themselves buy major stakes in their firms, in this method of privatisation. This method could be implemented easily both politically and technically. Corporate governance might be more better off, if insiders have better access than outsiders to the information needed to monitor managers.
(v) ***Equal-access voucher programmes :*** Vouchers are distributed amongst the population in this method of privatisation. Assets are allocated approximately evenly among voucher holders. This type of programme excels in speed and fairness. However, the government do not raise revenue. This method depicts unclear implications for corporate governance.

Privatisation & Disinvestment Programme of India :

The privatisation process began in 1991-92 with sale of minority stakes in some PSUs. From 1999-2000 onwards, the focus shifted to strategic sales.

The main approach of the government in this regard is to bring down its equity in all non-strategic public sector undertakings to 26 percent (or lower) and close down those public sector undertakings which can not be revived. The disinvestnent programme began in 1991-92 and government stakes in 48 companies have been sold in varying degrees by 2002-03. Till 1998-99, the government used to sell minority stakes through domestic or international issue of shares in small tranches every year. Post 1999-2000, there has been a greater stress on strategic sale-involving an effective transfer of control and management to a private entity, the argument being that the government would get a better price from the private sector if it is ceding actual control. The prominent companies that have witnessed strategic sale in the recent past include Modern Foods, BALCO, CMC, VSNL, IBP, ITDC Hotels, Maruti Udyog Limited and Hindustan Zinc Limited (HZL), BHEL and SCL.

Disinvestment Programme in 2003-05 :

Even as the government decided to go for the strategic sale for HPCL and the public offer route for BPCL- a compromise incidentally- those opposed to the privatisation pitched on a ruling by the Standing Committee, which said parliamentary approval was a must. The Supreme Court had also ruled that parliamentary approval is needed prior to disinvestment of these two companies. Subsequently, the Cabinet Committee on Disinvestments (CCD) had decided that three options could be explored including political consensus on passing the required legislation in Parliament, seeking a judicial clarification of the verdict and finally that revenue generation through other companies like India Oil Corporation, ONGC.

In the financial year 2003-04, the Central Government, mobilised total revenue at Rs. 15,400 crores from disinvestment, well above the target at Rs.13,200 crore. During the year 2003-04, Rs.1,300 crores were raised from disinvestment proceeds in Maruti Udyog Limited by selling its 27.5 percent equity and residual 18.92 percent equity sale in Hindustan Zinc and from the privatisation of Jessop & Co. Remaining Rs. 14,126 crores were raised from six public offerings (IPOs) of ONGC, GAIL, IPCL, IBP, Dredging Corporation and CMC. While 10% stake sold each in Oil & Natural Gas Corporation (ONGC) and Gail India through the initial public offering route, residual equity was offloaded in CMC, IBP, IPCL and Dredging Corporation of India. The revenue break-up for the latest six issues was Rs 1,625 crores from the Gas Authority of India Limited issue, Rs 1,200 crores from IPCL, Rs. 352 crores from IBP, Rs 221 crores from Dredging Corporation of India, Rs192 crores from CMC and Rs 10,534 crores from ONGC. Each of the six issues has been oversubscribed from 2.8 to 18.1 times. Total demand raised for the ONGC issue was as much as $ 15 billion as against the issue size of $ 2 billion; largest single offering in the capital markets in the Indian economy till now.

The NDA Government had fixed an ambitious target of Rs 16,000 from disinvestment proceeds for 2004-05. But, unfortunately, next UPA congress led government, has somewhat reversed the policy.

Disinvestment in Public Sector Undertaking

Year	*Number of Companies in which Equity sold*	*Target Receipt for the year*	*Actual Receipts*	*Methodology*
1991-92	47 (31 in one tranche & 16 in other)	2500	3038	Minority shares sold by auction method in bundles of 'very good', 'good' and 'average' companies
1992-93	35 (in 3 tranches)	2500	1913	Bundling of shares abandoned. Shares sold separately for each company by auction method

1993-94	—	3500	Nil	Equity of 7 companies sold by open auction but proceeds received in 94-95
1994-95	13	4000	4843	Sale through auction method, in which NRIs and other persons legally permitted to buy, hold or sell equity, allowed to participate
1995-96	5	7000	362	Equities of 4 companies auctioned & Govt. piggy-backed in the IDBI fixed price offering for the fifth company
1996-97	1	5000	380	GDR (VSNL) in international market
1997-98	1	4800	902	GDR (MTNL) in international market
1998-99	5	5000	5371	GDR (VSNL)/ domestic offerings with the participation of FIIs (CONCOR, GAIL), Cross purchase by 3 oil sector companies i.e. GAIL, ONGC & Indian Oil Corporation
1999-2000	2	10000	1860	GDR-GAIL VSNL- domestic issue, BALCO restructuring, MFIL's strategic sale and others
2000-01	4	10000	1871	Strategic sale of BALCO, LIMC: Takeover-KRL (CRL), CPCL (MRL), BRPL
2001-02	10	12000	5632#	Strategic sale of CMC-51%, HTL-74%, VSNL-25%, IBP- 33.58%, PPL- 74% and sale by other modes; ITDC & HCL; surplus reserves: STC and MMTC
2002-03	6	12000	3348#	Strategic sale of JESSOP- 72%, HZL-26%,MFIL-26%, IPCL-25% and other modes: HCL, Maruti
2003-04	10	14500	15547[1]	Issue of shares on Book building process GAIL, CMC Ltd., DCI, IBP, IPCL, ONGC, ICIL, Jessop & Co. Ltd. Maruti, HZL.

\# Figures (Inclusive of amount expected to be realised control premium, dividend/dividend tax & transfer of surplus cash reserves prior to disinvestment etc.)

1. Budget 2005-06 shows this figure of real disinvestment receipts to be Rs. 16953 crore.

Source: Ministry of Disinvestment

5.	What is Globalisation?

In simple terms, globalisation means 'integrating' the economy of a country with the world economy. In the Indian context, this implies opening up the economy to foreign direct investment by providing facilities to foreign companies to invest in different fields of economic activity in India, removing constraints and obstacles to the entry of MNCS in India, allowing Indian companies to enter into foreign collaborations etc. Globalisation makes the world a single market or economy. This allows free movement of products, factors, technology etc. It is estimated that nearly one-third of world trade has participated in the global production network. It is said that in India the seeds of this globalisation process more sown in the early 1980s, but the real thrust was provided by the new economic policy introduced by the Government of India in July 1991 at the behest of the IMF and the world bank.

Globalisation has widened the inequalities of income and wealth by discriminating between the firms.

6.	What are the views in favour of Globalisation?

1. Globalisation promotes allocative efficiency of the resources, help to reduce capital output ratio and enhance labour productivity. It gives a boost to the rate of growth of the economy by increasing the flow of capital & technology into the country. As a result, exports are encouraged.
2. It helps to change the pattern of production in countries which are labour abundant and capital scarce by adopting labour intensive techniques.
3. Better equalisation of factor prices take place due to free factor mobility.
4. Competition with the MNCs help the domestic products to improve quality and produce goods at cheaper costs.
5. Liberalisation of tariffs gives an encouragement to exports.
6. Financial sector is also boosted due to the expansion of this sector and easy supply of finances.

7.	What are the views against the Globalisation?

1. Import liberalisation has increased the competition in the Indian markets. There are many firms who are not in a position to compete with the MNC's and hence are thrown out of market, leading to a situation of unemployment.
2. Globalisation has widened the inequalities of income and wealth by discriminating between the firms.
3. Structural adjustments which take place in the economy as a result of globalisation creates conditions of uncertainty. Hence, the Indian companies face a lot of competition with the newly established MNCs from all respects.
4. The foreign firms may also influence the political scenario as much as the economic one. They are in a better position to influence the political power and makes things change as per their will.

8.	What are the measures taken towards Globalisation?

1. **Exchange Rate adjustment and rupee convertibility :** The most important measure for integrating the economy of a country with the global economy is to make its currency fully convertible, i.e., allow it to determine its own exchange rate in the international market without official intervention. This measure has to be accompanied by the lifting of exchange control measures in a phased

manners. As a first step towards this measure, the IMF insisted on 13% 'real' devaluation of the rupee in July 1991 as it felt that the RBI was artificially keeping the value of the rupee high.

The 1993-94 budget introduced full convertibility on current account and switched over to a unified exchange rate system. India achieved full convertibility on current account on August 19, 1994. Current account convertibility has been defined as the freedom to buy or sell foreign exchange for the following international transactions :–

(i) All payments due in connections with foreign trade, current business and credit facilities.
(ii) Payments due as interest on loans and as net income from other investments.
(iii) Payments of moderate amount of amortization of loans moderate remittances for family living expenses.

2. **Import Liberalisation :** In its Report 'India : Strategy for trade reform' released in 1990, the world Bank had advocated redesigning of the import policy so that there is only one negative (restricted) list and imports of all items not explicitly on the restricted list are allowed, lowering of import tariffs on all goods and free entry to capital goods, intermediate goods, raw materials and consumer goods into the Indian economy. In line with these proposals, the 1992-97 export-import policy allowed the free import of all items including capital goods, except a negative list. In addition, import duties on a wide range of commodities were drastically cut down.

   India as a member of world trade organisation (WTO), had also committed itself to the phasing out of quantitative restrictions over a six-year period beginning 1997. In terms of the agreement arrived at with USA, the quantitative restrictions have now been to tally removed. Moreover, as a part of the agreement on Trade Related Intellectual Property Rights (TRIPS), the Patents (Amendment) act, 1999 was passed in March 1999 to provide for Exclusive Marketing Rights (EMR's).

3. **Opening up to foreign capital :** In a bid to attract foreign capital and integrate the Indian economy with the global economy, the Government of India has thrown open the doors to foreign investors. The shape of industrialisation take the revolutionised change with the encouragement to foreign investors and NRI in our country. They had been provided up to 26%, 49%, 51%, 74%, 100% for different products and areas of investment. Defence and insurance companies have also been invited to establish in India.

4. **Export Promotion :** The infrastructural facilities were provided to export companies. The transport and communication system were modernised. The foreign exchange market began to reflect the reality in respect of the demand and supply of foreign exchange. Adequate finance has been provided to export oriented industries. So, many change were made in the tariff list of export items in order to make the price competitive in the world market. Indian workers are also given facilities to go abroad and to send their savings back to India.

9.	**What are the effects of Globalisation on Indian Economy ?**

The process of globalisation initiated in 1991 and the far-reaching changes in industrial and other policies have led to considerable changes on the external sector front.

Effects on the External Sector:

The Finance Minister in his budget speeches in 1994 and 1995 claimed the following achievements on the external front :–

1. Our foreign currency reserves which had fallen to barely one billion dollars in June 1991 rose substantially to over 20 billion dollars on March 10, 1995.

2. Exporters are responding well to sweeping reforms of exchange rate and trade policies. The exports grew by 20% in 1993-94. Though imports also grew in line with the revival of the economy, yet the balance of payments situation is comfortable.
3. Liberalisation and openness have actually increased our self-reliance. Exports now finance over 90% of imports.
4. The current account deficit was over 3% of GDP in 1990-91, which reduced to 1.4% in 1998-99.
5. At the time of crisis, our external debt was rising at the rate of $ 8 billion a year. In the first half of 1994-95 our external debt stock actually declined by all most $ 300 million.
6. Contrary to what many feared, the exchange rate for the rupee has remained remarkably steady despite the introduction of full convertibility first on trade account and then on current account.
7. International confidence in India has been restored. As a result, foreign direct and portfolio investment has increased rapidly in the last 3-4 years.

Effects on the Indian Enterprises:

The process of globalisation in India has led to an 'unequal competition'- a competition between 'giant MNCs' and 'dwarf Indian enterprises'. While some of these Indian enterprises have already been gobbled up by the latter, some others are awaiting their then with bated breath. As once noted by an MP from West Bengal, Baldev Raj Nayar, the globalisation of the Indian economy is like integrating a mouse into a herd of elephants.

The Indian enterprises suffer from 'size disadvantages' lack of adequate & minimum cost capital, they continue to suffer from handicaps developed under the earlier regime of controls, the high, multiple and cascading indirect taxes, discriminatory attitude of the state towards the MNCs etc.

On account of all these reasons, the process of globalisation unleashed in 1991 has 'created' a new world – a world in which not only there has been an inflow of substantial foreign capital, but the domestic corporate sector for the first time saw itself as the 'target' rather than the 'beneficiary' of the heightened activities of the foreign investors. The swiftness and aggressiveness with which the foreign investors sought to penetrate and capture the domestic market has caused serious worry to the Indian corporate sector.

10.	What is IMF?

IMF stands for International Monetary Organisation. It was established on December 27, 1945 in Washington on the recommendations of Bretton Woods Conference. But it started its operations on March 1, 1947. At present, 184 nations are members of the IMF. East Timor became the newest member in July 2002.

In place of Horst Koehler (Germany) Rodrigo Rato (Spain) has been made as new Managing Director of IMF on May 5, 2004.

Objectives of IMF :—

According to 'Articles of Agreement' of the IMF, its main objectives are as follows :-

1. To promote international monetary co-operation.
2. To ensure balanced international trade.
3. To ensure exchange rate stability.
4. To eliminate or to minimize exchange restrictions by promoting the system of multilateral payments.
5. To grant economic assistance to member countries for eliminating the adverse imbalance in balance of payments.
6. To minimize imbalances in quantum and duration of international trade.