ECONOMICS

CLASS XI

CHAPTER THREE

LIBERALISATION, PRIVATISATION AND GLOBALISATION: AN APPRAISAL

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1. Why were reforms introduced in India?

Reforms were introduced in India in the year 1991 due to the following reasons:

1. To manage the economic crisis that the country was going through

2. Fiscal deficit was going through the worst phase during the period, which resulted in increased public debt.

3. India was going through a weak Balance of Payments (BOP) scenario. The fall of the erstwhile Soviet Union and the Gulf War led to borrowing from the international market. Finally, this led to the formation of a new economic policy to attain a balanced economy.

4. PSUs were established with the aim of providing employment and removing poverty. But the PSUs turned out to be loss-making units, which burdened the already weak economy of the country.

5. High level of fiscal deficit led to RBI increasing the inflation rate, which made goods more costly and led to the starting of a movement from within.

2. Why is it necessary to become a member of the WTO?

Becoming a member of WTO (World Trade Organisation) is important in many ways, as mentioned below:

1. Being a member of WTO, a member country gets equal rights as other member countries to trade in the international market.

2. It provides scope to produce more at a large scale so that it can cater to needy people across boundaries.

3. WTO work towards abolishing tariff barriers in order to encourage healthy competition among producers of different countries

4. Member countries of WTO which have a similar economic status can raise their voices to safeguard common interests.

3. Why did RBI have to change its role from the controller to facilitator of the financial sector in India?

RBI’s role prior to liberalisation was to control and regulate the financial sector, which comprises financial institutions, such as commercial banks, stock exchange, investment banking, foreign exchange or forex, as it is called now. With the liberalisation and reforms undertaken for the finance sector, RBI assumed the role of a facilitator in order to allow financial institutions to make their own decision. This led to the entry of foreign players. The main objective of financial reforms was to obtain foreign investment and participation from the private sector to increase competitiveness in the finance sector.

4. How is RBI controlling commercial banks?

RBI is the authority that determines the various ratios like SLR (Statutory Liquid Ratio), Repo Rate, Cash Reserve Ratio (CRR), Reverse Repo Rate and Prime Lending Rate (PLR). It determines the rate of interest for home loans and other loans for banking sectors, and all commercial banks have to follow the same. RBI acts as the Central Bank of India and controls the money supply for the economy.

5. What do you understand by the devaluation of rupee?

Devaluation is the reduction in the value of the currency in comparison to a foreign currency under the Fixed Rate System. Devaluation is done by the government in order to encourage more exports and reduce imports. After the devaluation, the value of the rupee is reduced with respect to the foreign currency, and more amount of goods can be purchased using one unit of that foreign currency.

6. Distinguish between the following:

(i) Strategic and minority sale

(ii) Bilateral and multilateral trade

(iii) Tariff and non-tariff barriers.

(i)	**Strategic Sale**	**Minority Sale**
a)	It refers to the sale of stake of a PSU amounting to 51% to a private sector bidder with the highest bid	It refers to the sale of stake of a PSU, which can be less than or equal to 49%, to a private sector bidder
b)	Change in ownership handed over to the major stakeholder	Ownership stays with the government due to the virtue of holding 51% or more of the stake

(ii)	**Bilateral Trade**	**Multilateral Trade**
a)	Exchange of goods between two nations promoting trade	It is a trade agreement between three or more nations
b)	It provides equal opportunities to both the participating nation	Provides equal opportunity to all the members of the trade agreement

(iii)	**Tariff Barriers**	**Non-tariff Barriers**
a)	It refers to the tax that is imposed by the country in order to offer protection to the existing industries.	Refers to barriers which are government policies and practices that restrict foreign trade.
b)	Tariff barriers raise the price of the product but have a limited effect on demand	It is more effective in raising the demand

7. Why are tariffs imposed?

Tariffs are imposed with the purpose of raising the price of goods from imports which discourages further imports. This provides scope for domestic products to earn market share and help them survive. Any such item that is thought to be unnecessary coupled with a high cost of import will be a burden on forex reserves.

8. What is the meaning of quantitative restrictions?

It refers to clearly defined limits and quotas on the physical commodities that can be exported or imported during a specific time period. Limits can be made on a selective basis based on varying limits of goods as per country or destination. Quantitative restrictions have a greater protective effect as compared to tariff measures and result in distorting free trade. When quantitative restrictions are used by a trading partner, export cannot be done beyond the quota that is set.

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

A profit-earning PSU is that which generates revenue for the government, while a PSU is regarded as loss-making if the same PSU is inefficient and puts an undue burden on the government. Such loss-making entities should be privatised and can lead to more efficient business. Core areas of business, such as Railways and Water, should not be privatised as it is created for the welfare of the people, as it will impact the welfare of the people. Instead of privatising profit-making PSUs, they can be granted a greater degree of autonomy in their operating activities, which will increase their efficiency and productivity and make them more competitive with their private counterparts.

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

Yes, it is good for India. The following points will help in justifying that:

1. For a country like India, which is developing, employment generation is a concern, and outsourcing provides a solution for generating employment opportunities.

2. It enables the transfer of knowledge about processes and technology from developed countries to developing countries.

3. By providing outsourcing services, India makes itself credible in the international market, and it will help in bringing international investment to India.

4. Outsourcing opens up avenues across service sectors and helps the educated youth in getting skills which will result in human capital formation

5. Jobs will help in the building of society by reducing poverty and also pave the way for education, which will build the nation as a whole.

Developed countries oppose outsourcing as it leads to the outflow of jobs from developed countries to developing countries; it leads to the outflow of investment and revenue and helps develop the weaker country, but results in job scarcity for the developed countries.

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

The following points will highlight the reasons that make India a favourite outsourcing destination:

1. Wage rates in India are less as compared to other developed nations, and it makes MNCs invest in Indian workers and shift a part of their business to India.

2. Indians are educated and can be easily trained, but due to the lack of job opportunities, job training costs will be low.

3. India is an emerging market for goods and services, as the cost of production is cut by half if it is produced in India; therefore, it makes sense to invest in India.

4. India offers a stable political environment suitable for setting up businesses.

5. India has been developing the infrastructure section for the last 10-20 years, and connectivity has become much improved; this has helped MNCs in reducing the cost of production.

6. India has abundant natural resources, which make for a steady source of raw materials to ensure the proper functioning of MNCs.

7. India does not have companies that can provide competition on a global basis. Hence, it is easier for MNCs to establish themselves as market leaders.

12. Do you think the Navaratna policy of the government helps in improving the performance of public sector undertakings in India? How?

Navaratna status is given to those PSE or PSU (Public Sector Enterprises or Public Sector Undertaking) in 1997 that have been profitable in the market and have a comparative advantage. These organisations were given freedom in financial, operational and managerial autonomy. The result of this move was that the company expanded its footprints in the global market and became financially and operationally self-sufficient. The granting of Navaratna status helped them improve their performance.

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

Factors that helped in the growth of the service sector are as follows:

1. India being a major outsourcing market for services, had a high demand for banking, customer support, finance, software service, advertisement and communication, which led to the growth of the service sector.

2. India underwent financial reforms in the year 1991, which expanded its economy through the inflow of foreign investment, which led to the growth of the service industry.

3. Indian economy had undergone a structural change which shifted its focus from the primary to the tertiary sector, which opened up avenues for the growth of services across segments.

4. By following a policy of low tariff and non-tariff barriers for products, India could gather a large part of the service sector from developed countries.

5. India provides a market for cheap and knowledgeable labour, and this factor has helped many developed nations in setting up subsidiaries in India to carry on their operations.

6. The growth of the IT sector and innovations in the technology field have made India a favourite destination for investors and industries alike.

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

Economic reforms initiated in 1991 did not have an impact on the agriculture industry. Here are the reasons:

1. Public investment decreased in the agriculture sector after 1991, so the Indian government reduced support for research and development in agriculture and supported services that had a negative impact on agriculture.

2. As subsidies were removed from fertilisers, the cost of production escalated, which made farming more expensive, and it also affected poor farmers.

3. By complying with WTO regulations, import duties on agricultural products were reduced, which made it difficult for poor farmers to compete against products of the international market.

4. Shifting focus on producing more cash crops and removal of subsidies exerted a double impact which resulted in inflation, making the cost of production more expensive.

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

Industrial sector performance was poor due to the following reasons:

1. A reduced industrial output was observed due to cheaper imports. Imports were cheaper as import tariffs were removed. This led to reduced demand for domestic goods.

2. There was a lack of investment in infrastructure facilities, due to which domestic firms were unable to compete with their developed counterparts from foreign countries in terms of cost and quality. Inadequate infrastructure raised the cost of production and made the goods non-feasible in the market due to the high price.

3. Non-tariff barriers maintained by many developed countries made Indian products less accessible in those countries, which led to an overall decline in revenue.

4. Domestic industries did not develop in terms of technology and hence were unable to compete with the industries of developed nations. Traditional technologies were not at all cost-effective or had good quality, which was the reason for poor growth.

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

Economic reforms enabled India to be an able competitor in the international market. Here are other positive points that happened as a result of the reforms:

1. Movement of goods and services across the globe.

2. The inflow of foreign capital led to more investor interest

3. The boom in the service sector boosted Eco tourism

4. GDP increased multiple times

5. Employment opportunities

Negative points

1. No benefits for the agriculture industry

2. Reforms benefitted the high-income group and made life tougher for the low and middle class

3. Development of areas nearby metropolitan cities made rural areas underdeveloped

Thus, it can be said that economic reforms did not provide social justice and were unable to work for the welfare of the general public.

FILL IN THE BLANKS

1.Reforms were introduced during______________(**1991)**

2.RBI regulates the ____ sector**(Financial)**

3.WTO was founded in__________**(1995)**

4.Tax on the incomes of individuals is called______ **(Direct tax)**

MCQ QUESTION AND ANSWERS

1. **Which of the following was the main reason behind initiating the economic reforms in the country?**
    a. India was facing a huge fiscal deficit issue
    b. India had an adverse balance of payments
    c. The rise in the prices of several essential commodities
    d. All of the above

    Answer: d

2. **Which of the following was one of the most important measures introduced in the foreign trade policy from 1991?**
    a. The reduction of restrictions on imports from other countries
    b. The reduction of restrictions on exports to other countries
    c. Both a and b are incorrect
    d. Both a and b are correct

    Answer: d

3. **Which of the following is the main advantage of the inward foreign direct investments in India?**
    a. The inward foreign direct investment helps to bring foreign exchange into the country
    b. The inward foreign direct investment helps to bring modern technology into the country

c. The inward foreign direct investment helps to bring management expertise into the country
d. All of the above

Answer: d

4. **Which of the following statements about the fiscal deficit is correct?**
   a. It is a part of the total government expenditure that is met by imposing more taxes
   b. It is a part of the total government expenditure that is met through borrowings
   c. It is a part of the total government expenditure that is met by selling the shares held by them in public companies
   d. It is a part of the total government expenditure that is met by imposing public assets

   Answer: b

5. **Which of the following statements about the new economic policy is not correct?**
   a. The new economic policy helped to initiate privatisation in the country
   b. The new economic policy helped to initiate liberalisation in the country
   c. The new economic policy helped to initiate urbanisation in the country
   d. The new economic policy helped to initiate globalisation in the country

   Answer: c

6. **Which of the following statements correctly describes the process of initiating foreign exchange reforms?**
   a. The rupee is devalued against the foreign currency
   b. The government decided to introduce the fixed exchange rate system
   c. The exchange rate is determined by the market forces
   d. Both a and c are correct

   Answer: a

7. **Which of the following statements correctly describes the process of privatisation?**
    a. The privatisation process involves transferring a company to a non-profit organisation
    b. The privatisation process involves outsourcing services to other companies
    c. The privatisation process involves selling off a few public sector units to the private sector
    d. None of the above

    Answer: c

8. **Which of the following statements is true about the import licensing reforms under the new economic policy of 1991?**
    a. The import licensing was abolished except in the case of hazardous items
    b. The import licensing was abolished except in the case of environmentally sensitive industries
    c. Both a and b are incorrect
    d. Both a and b are incorrect

    Answer: d

9. **Which of the following statements accurately describes the industrial policy of India before the Liberalisation, Globalisation and Privatisation reforms?**
    a. The industrial policy before 1991 was a pro-public sector reform
    b. The industrial policy before 1991 was a pro-private sector reform
    c. The industrial policy before 1991 was an anti-public sector reform
    d. The industrial policy before 1991 was an anti-private sector reform

    Answer: a

10. **Which of the following statements is true about the Indian financial crisis before 1991?**
    a. The World Bank and International Monetary Fund (IMF) provided 10 billion dollars to bail India out of the financial crisis
    b. The World Bank and International Monetary Fund (IMF) provided 7 billion dollars to bail India out of the financial crisis
    c. The World Bank and International Monetary Fund (IMF) provided 15 billion dollars to bail India out of the financial crisis

d. The World Bank and International Monetary Fund (IMF) provided 12 billion dollars to bail India out of the financial crisis

Answer: b

11. **Which of the following statements is true about liberalisation?**
    a. It involves the reduction of government controls and deregulation along with greater autonomy for the private investments
    b. It refers to contracting some of the activities performed within the organisation to third parties
    c. Both a and b are correct
    d. Both a and b are incorrect

Answer: c

12. **Which of these economic reforms were initiated by the government under their liberalisation policy?**
    a. Industrial and financial sector reforms
    b. Industrial, agricultural and financial sector reforms
    c. Agricultural and financial sector reforms
    d. Industrial and agricultural sector reforms

Answer: a

13. **Which of the following bodies was a predecessor to the World Trade Organisation (WTO)?**
    a. General Agreement on Tariffs and Trade (GATT)

    International Monetary Fund (IMF)

    b. International Bank for Reconstruction and Development (IBRD)
    c. None of the above

Answer: a

14. **Which one of the following is not a feature of privatisation?**
    a. Implementing the policy of disinvestment of public sector units
    b. Contraction of the public sector
    c. Reduction of the tax rates
    d. Both a and b are correct

Answer: c

15. **Which of the following statements is true about financial sector reforms?**

   a. Financial sector reforms mainly relate to the banking sector
   b. Financial sector reforms mainly relate to the foreign exchange markets
   c. Both a and b are correct
   d. Both a and b are incorrect

   Answer: c