LIBERALISATION, PRIVATISATION AND GLOBALISATION

Multiple Choice Type Questions

1. In which year did India adopt the economic reforms?
   a. 1991
   b. 1993
   c. 1998
   d. 2001

2. Why there was a need for economic reforms in India?
   a. Due to fiscal deficit
   b. Due to adverse BOP
   c. Rise in prices
   d. All of the above

3. When did the Gulf Crisis take place?
   a. 1985
   b. 1990-91
   c. 1995
   d. 1975

4. How much loan was provided by World Bank and IMF during the nineties to bail India out of the crisis?
   a. $10 million
   b. $10 billion
   c. $7 billion
   d. $20 billion

5. What is the main feature of New Economic Policy?
   a. Liberalization
   b. Privatisation
   c. Globalizations
   d. All of the above

Answer

1. (a)   2. (d)   3. (b)   4. (c)   5. (d)

SHORT ANSWER QUESTIONS

1. Discuss the need for privatisation. What are the ways in which PSUs can be privatised?
   Answer: Privatisation means the induction of private management and control in the public sector enterprises. With a view to improve the performance of the public sector enterprises, the wave of privatisation has spread all over the world. Need for privatisation was felt mainly because of the

inefficiency of the public sector enterprises. Thus, the private sector was given a larger space to operate in the areas reserved exclusively for the public sector.

Privatisation can be done by two ways:
(i) By withdrawal governmental control from the management and ownership of public sector companies; and
(ii) By outright sale of public sector companies.

2. Explain the significance of globalization in the light of today's modern world.
Answer: Integration and unification of domestic economy with the world economy is known as globalization. Globalisation is the outcome of liberalization and privatisation. Due to the globalisation process, the unrestricted flow of goods and services, technology, capital and expertise was enabled among different countries of the world.

It helps in fostering healthy foreign competition among nations. As a result of globalisation process, the government of India has decided to increase the share of foreign investment up to 51% in Indian companies and provided automatic sanction to collaborations and foreign investors for this much of investment.

State the objective of WTO.
The WTO has the following objectives:

- To develop the multilateral trading system encompassing the GATT, the results of the Uruguay Round and all the agreements concluded under the GATT
- To raise standard of living, real income, employment through expansion of trade
- To promote optimum utilisation of the world's resources
- To secure the share of developing countries in the growth of international trade
- To eliminate discriminatory treatment in international trade
- To ensure linkage among different trade policies, environmental policies and sustainable development

3. How important is the role of outsourcing in globalisation process?
Answer: Outsourcing is the practice of hiring external sources, mostly from other countries, for regular services such as legal advice, advertisements, security, computer services, etc. With the adoption of globalisation, outsourcing has been intensified by the growth of fast modes of communication.

Many companies of developed nations are outsourcing a variety of services such as voice-based business processes, which are known as BPO or call centres, banking services, film editing, clinical advice, teaching, record keeping, accountancy, music recording, book transcription, etc. to India. Most of the multinational corporations and even small companies are outsourcing their services to India at a cheaper cost with reasonable degree of skill and accuracy.

4. Write a short note on New Economic Policy, India.
Answer: The IMF and World Bank announced New Economic Policy as a condition to support Indian economy to overcome crisis. The NEP consisted of wide range of economic reforms. The core policies were intended to create a more competitive environment in the economy and remove the barriers to entry and growth of firms.

This set of policies can broadly be classified into two groups:

(i) Stabilisation Measures: These are short-term measures aimed to correct the weaknesses developed in the balance of payments and to bring inflation under control.

(ii) Structural Reform Measures: These are long-term measures initiated to improve economic efficiency and increase its international competitiveness by eliminating the rigidities in various segments of the Indian economy.

5. Explain the significance of liberalization as an element of new economic reforms.
   Answer: Liberalization means liberating the trade and industry of an economy from unnecessary restrictions and making the industries more competitive. It implies making the economy free from direct or physical controls imposed by the government. Partial liberalization was started in India's economy in the decade of eighties.

   However, the New Economic Policy initiated in 1991 is more comprehensive and focused on reducing the controls by introducing liberal changes in both the external as well as domestic economy. Liberalization process is based on the assumption that market forces could guide the economy in a more effective way than the government control.

LONG ANSWER QUESTION

1. What was the need for economic reforms in India? Explain.
   Answer:
   At the time of independence, building a large public sector was almost unavoidable. The capabilities of India's private sector could not be visualised at that time to make very large investments in the areas like infrastructure. However, by late 1980s the situation had completely changed. By that time, India had developed a strong private sector. Therefore, the argument of a large public sector was no longer valid. Need for economic reforms or New Economic Policy was observed mainly due to following reasons:

   (i) Increase in Fiscal Deficit: By 1991, government expenditures began to exceed its revenue by such large margins, which became unsustainable. Fiscal deficit was increasing year after year due to increase in its non-developmental expenditure. Fiscal deficit was 5.4 percent of GDP in 1981 -82, which increased to 8.4 percent of GDP in 1990-91.

   Interest payments on public debt were amounted to I0 percent of total government expenditure in 1980-81 which increased to 36.4 percent in 1991. Thus, government was fast heading for debt trap. India had lost the faith of international institutions like World Bank and IMF. Hence, it was necessary to begin new economic reforms in the country.

   (ii) Adverse Balance of Payments: Balance of payments is an account of all the payments and receipts of one country with other countries. Imports grew at a very high rate unable to match growth in exports. Thus, India faced adverse balance of payment. The country needed foreign exchange to pay for the import of goods and services. The deficit in the balance of payment on current was □ 2,214 crore in 1980-81 which rose to □ 17,367 crore in 1990-91. Therefore, it was necessary to adopt New Economic Policy to correct the deficit in the Balance of Payment.

(iii) Gulf Crisis: Prices of petroleum increased in 1990-91 due to Iraq War. This Gulf crisis further worsened the balance of payment position of India.

(iv) Rise in Prices: During 1990-91, the level of inflation in the country reached to double digit. As a result, foreign investors had lost their confidence in Indian economy and national capital resources were flying out of the country. Cost of production had taken an upward jump due to high rate of inflation.

(v) Poor Performance of the Public Sector Undertaking: After 1980, most of the public sector undertakings had suffered huge losses. As a result, PSUs have become a liability to the nation. It became inevitable for the government to adopt New Economic Policy.

(vi) Fall in Foreign Exchange Reserves: During 1990-91, foreign exchange reserves declined to a level that was not adequate for imports worth more than two weeks; exports declined and industrial output of the country was crippled.

India had to approach the World Bank and IMF to provide huge loans of $7 billion to bail India out of the crisis. The IMF and World Bank announced New Economic Policy as a condition to support Indian economy to overcome crisis.

2. Explain the measures taken in various sectors for liberalization of the economy.
Answer: The following measures had been taken for liberalization of Indian economy under New Economic Policy:
I. Industrial Sector Reforms
(i) The number of industries reserved for the public sector was reduced from 17 to 4 and in the areas reserved for public sector; private sector's participation was to be allowed.

(ii) Monopolies and Restrictive Trade Practices (MRTP) Act was liberalized. According to the provision of MRTP Act, all those firms having assets worth more than 100 crore were used to be declared as MRTP firms and were subjected to many restrictions. Now, the concept of MRTP has been abolished. These firms are now free to expand themselves.

(iii) Under the policy of liberalization, industries are now free for expansion and production. Producers are now free to produce anything on the basis of demand in the market. Licensing was abolished and as a result, firms are free to expand their production capacity.

(iv) Investment limit of the small scale industries has been raised to one crore to enable them for modernisation.

(v) Automatic approval was granted for Foreign Direct Investment up to 51 percent in a wide range of industries.

(vi) Under liberalization, Indian industries were allowed to buy machinery and raw material from abroad. Government has also allowed the industries to import technology for their modernisation from abroad.

II. Financial Sector Reforms

- (i) RBI’s role had been changed from controller to facilitator in India to allow the financial sector to take decisions on various matters without consulting the RBI.
- (ii) The limit for foreign investment in banks was raised to around 50 percent.
- (iii) Foreign Institutional Investors such as merchant bankers, mutual funds and pension funds are now allowed to invest in Indian financial markets.

III. Foreign Exchange Reforms

- The rupee was devalued against foreign currencies to attract huge inflow of foreign exchange.
- The government adopted free market mechanism for the determination of rupee value in the foreign exchange market.

IV. Trade Policy Reforms

- There was moderation/reduction in import duty to enhance competitiveness in the domestic market.
- Import quotas had been completely abolished.
- Policy of import licensing had almost been scrapped.
- Export duty had been withdrawn to enhance competitiveness of Indian goods in the international market.

3. What were the measures taken under economic reforms to promote privatisation? Explain.
Answer:
The following measures were taken to promote privatisation under New Economic Policy:
(i) Contraction of Public Sector: Earlier for the economic development of India, great importance was given to public sector. However, most of the objectives of economic development have remained unfulfilled.

As a result, policy of contraction of public sector was adopted under economic reforms. Number of industries reserved exclusively for public sector was reduced from 17 to 8 and further to 2, viz. atomic energy and railways transport. All other industries form the part of private sector.

(ii) Disinvestments: In the liberalization process, the part of the equity of inefficient public sector undertakings was sold to the private sector (public). This is also known as disinvestments. The purpose of disinvestments was mainly to improve financial position and facilitate modernisation.

It was thought that disinvestments could provide strong impetus to the inflow of Foreign Direct Investment. It should be remembered that all of our PSUs are not inefficient. Our Nine PSUs, which are known as ‘Navaratnas’ of Indian Economy are still playing a leading role in the world market.

4. Discuss the various strategies which laid the foundation stone for the process of globalisation in India.
Answer: The various strategies which laid the foundation stone for the process of globalisation in India are discussed below:

(i) Foreign Exchange Reforms: In 1991, rupee had to be devalued against foreign currencies in order to correct the widening deficit in the balance of trade. That was the first and most important reform in the external sector which was made in the foreign exchange market. At present, the value of rupee is determined by market on the basis of demand and supply of exports and imports and by FDI or FIls.

(ii) Trade and Investment Policy Reforms: Since 1991, the door for foreign investment and technology transfer are opened. Foreign Exchange Regulation Act (FERA), which intended to control the inflow and outflow of foreign exchange, was replaced by a more liberal Foreign Exchange Management Act (FEMA).

Quantitative restrictions on imports of agricultural products and manufactured consumer goods were also fully removed from April, 2001. Since 1991, tariff rules are reduced and the licensing procedures for imports are removed.

(iii) Reduction in Tariff: In order to encourage competitiveness, tariff barriers have been withdrawn on most goods traded between India and rest of the world.

5. What are the merits and demerits globalisation?
Answer:
Merits of Globalisation
(i) Globalisation provides exposure to international economies and helps availing advanced technology and inputs from across the globe. This improves quantity as well as quality of production.

(ii) It helps in improving efficiency of allocation of resources due to more competitive environment.

(iii) It encourages healthy competition among nations, which helps in improving the quality of goods and services at a competitive price.

(iv) India's share in the world trade has increased from 0.5 per cent in 1990-91 to 1.1 percent in 2005.

Demerits of Globalisation
(i) Many industries (especially small units) may not be able to compete at par with big MNCs. As a result, they might be forced to merge with global enterprises or face a closure.

(ii) Large scale establishment of MNCs in the developing countries like India might result in monopolies.

(iii) Globalisation may lead to income inequalities within the country as it will benefit only those who possess latest skills and technology.

6. Discuss the benefits of WTO to India.
Answer: The following are the important benefits emerging from the WTO agreement:
(i) Due to reductions in tariff and non-tariff barriers, there will be development of trading environment leading to dynamism.

(ii) Countries like India will be helped in their liberal economic policies due to increase in market access opportunities under the WTO.

(iii) It is estimated that world income from trade liberalization could increase from $ II0 billion to $5 10 billion annually.

(iv) The WTO will strengthen the trade relations among member countries. It will lead to a new trade order.

(v) India will gain in the long run due to low duties on raw-material, components and capital goods.

(vi) The TRIPs are not going to harm India and other developing countries because of providing safeguards.

(vii) India, being a founder member country, has already started to assert itself in the meeting of the WTO council.

(viii) The WTO agreement will emphasise linkages between trade policies, environmental policies and sustainable development.