CHAPTER - 3
LIBERALISATION, PRIVATISATION & GLOBALISATION - AN APPRAISAL

Question 1. 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) Remmittances from non-residence Indians stopped due to war in Arab countries.
(l) Price of petroleum products was very high.

Question 2. How many countries are members of the WTO?

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

Question 3. 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.

Question 4. How was RBI controlling the commercial banks?

Answer. Prior to 1991, banking institutions were subject to too much control by the RBI through high bank rate, high cash reserve ratio and statutory liquidity ratio.
Financial sector includes:
(a) banking and non-banking financial’institutions,
(b) stock exchange market, and
(c) foreign exchange market.
In India, financial sector is regulated and controlled by the RBI (Reserve Bank of India).

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

Answer. Devaluation refers to lowering in the official value of a currrency with respect to gold or foreign currency. It results in costlier imports and cheaper exports.

Question 6. Distinguish between the following:
(i) Strategic and Minority sale

Answer. Government has been disinvesting by many methods. Two main methods are:
(a) Minority sale. In this method, equity is offered to investors through domestic public issue.
(b) Strategic sale. In this method, government offloads above 51 per cent in strategic sale.
(ii) Bilateral and Multi-lateral trade
Answer. Trade agreements involving more than two countries are referred to as multilateral trade agreements.
Trade agreements involving two countries are referred to as bilateral trade agreements.
(iii) Tariff and Non-tariff barriers
Answer. Tariff Barriers. Tariff barriers are imposed on imports to make them relatively costly as a measure to protect domestic production.
Non-Tariff Barriers. They are imposed on the amount of imports and exports.

Question 7. Why are tariffs imposed?

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

Question 8. What is the meaning of quantitative restrictions?

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

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

Answer. No, if profit making PSUs are privatised then there will be only loss making PSUs left. Government
needs the profit of the profit.making PSUs to modernise them, to make them, more competitive and more efficient.

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

Answer. Outsourcing is good for India because it provides employment to large number of unemployed Indians. Developed countries oppose it because :
(a) They-are not sure about the sincerity of Indian workers.
(b) It will narrow down the income disparity between the two countries.

Question 11. 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 12. Do you think the navratna pdlicy of the government helps in improving the performance of public sector undertakings in India? How?

Answer. The government has decided to give special treatment to some of the important profit making PSUs and they were given the status of navratnas. These navratnas were granted financial and operational autonomy in the working of the companies. These navratnas are:
1. Indian Oil Corporation Ltd. (IOCL)
2. Bharat Petroleum Corporation Ltd. (BPCL)
3. Hindustan Petroleum Corporation Ltd. (HPCL)
4. Oil and Natural Gas Corporation Ltd (ONGC)
5. Steel Authority of India Ltd. (SAIL)
6. Indian Petrochemicals Corporation Ltd. (IPCL)
7. Bharat Heavy Electricals Ltd. (BHEL) –
8. National Thermal Power Corporation (NTPC)
9. Mahanagar Telephone Nigam Limited (MTNL)
10. Gas Authority of India Limited (GAIL)
11. Videsh Sanchar Nigam Limited (VSNL)
The granting of navratna status resulted in better performance of these. companies. The ‘ government partly privatised these companies through disinvestment.

Question 13. 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 14. Agriculture sector appears to be adversely affected by the reform process. Why?

Answer. There has been deceleration in agricultural growth. This deceleration is the root cause of the problem of rural distress that reached crisis in some parts of the country. Farmers find themselves into crippling debt due to low farm incomes combined with low prices of output and lack of credit at reasonable prices. This has led to widespread distress migration.
Economic reforms have not been able to benefit the agricultural sector because:

(a) Liberalisation has forced the small farmers to compete in a global market where prices of goods have fallen while removal of subsidies has led to increase in the cost of production. It has made farming more expensive.

(b) Various policy changes like reduction in import duties on agricultural products, removal of minimum support price and lifting of quantitative restrictions have increased the threat of international competition to the Indian farmers.

(c) The export-oriented growth has favoured increased production of cash crops rather than food grains. This has increased the prices of food grains.

(d) Public investment in agriculture sector especially in infrastructure which includes irrigation, power, roads, market linkages and research has been reduced in the reform period.

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

Answer. The post-reform period shows that industrial growth has slowed down. This was due to:
(a) Globalisation created conditions for free movement of goods and services from foreign countries. It adversely affected the local industries and employment in developing countries.

(b) Globalisation led to decrease in demand for domestic industrial products due to cheaper imports.

(c) There was inadequate investment in infrastructural facilities such as power supply.

(d) A development country like India still does not have the access to markets of developed countries due to high non-tariff barriers.

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

Answer. Economic reforms have been criticised on the following grounds:

(a) Privatisation encourages growth-ofunonopoly power in the hands of big business houses. It results in greater inequalities of income and wealth.

(b) Globalisation has devastated local producers since they are unable to compete with cheap imports.
(c) Economic reforms have led to mounting workers unrest. Workers have protested against low wages, poor working conditions, autocratic management rule, long work days and fall in social benefits.

(d) These have made public employees worse off. Public employees are adversely effected by budget cuts, privatisation and massive loss of purchasing power.

(e) Small business class is adversely affected by fall of public subsidies, de-industrialisation and floods of cheap imports.

(f) During the globalisation phase, about half a billion people in South Asia have experienced a decline in their income. Data shows that it is the poor who have suffered most.

(g) Since the government is unable to help the victims of globalisation, the provisions of social safety net have been weakened.

(h) The global village appears deeply divided between the street of the haves and those of the havenots. The average person in Norway (which has highest human development) and the average person in countries such as Niger (which has lowest human development) certainly live in different human development districts of the global village.