

LIBERALISATION, PRIVATISATION AND GLOBALISATION: APPRAISAL

STUDY-NOTES

- **Economic Reforms Since 1991**
- **Meaning:** Economic reforms refer to a set of economic policies directed to accelerate the pace of 'growth and development'
- Economic reforms or structural adjustment is a long term multi-dimensional package of various policies (Liberalisation, privatisation, and globalisation) and programme for the speedy growth, efficiency in production and make a competitive environment. Economic reforms are adopted by Indian Government in 1991.
- **Factors responsible for Economic reforms**
 - Fall in foreign exchange reserve.
 - Mounting fiscal deficit.
 - Failure of public enterprises.
 - Adverse balance of payments
 - Rise in prices
 - Gulf crisis.
- **Stabilization measures:** These are short run measures introduced by Government to control rise in price, adverse balance of payment and fall in foreign exchange reserve.
- **Structural adjustment:** These are long-run policies the goal of structural reforms is to abolish controls, eliminate bureaucratic hurdles and redtapism and make the decision-making process efficient and transparent.
- In the new economic policy 1991, Structural reforms can be seen with respect to:
 1. Liberalisation. 2. Privatisation 3. Globalisation
- **Liberalization:** Liberalization means removing all unnecessary control and restriction like permits, licenses etc
- Economic reforms under liberalization:
- **Industrial sector reforms:**
 - (i) Abolition of industrial licensing: Industrial licensing was abolished for almost all but product categories - alcohol, cigarettes, hazardous chemicals, industrial explosives, electronics, aerospace and drugs and pharmaceuticals.
 - (ii) Decrease in role of public sector: The only industries which are now reserved for the public sector are a pan of defense equipment, atomic energy generation and railway transport.
 - (iii) De-reservation of production by small scale industries: Many goods produced by small-scale industries have now been de-reserved.
 - (iv) Freedom to import capital goods
 - (v) Expansion of production capacity
 - (vi) In many industries, the market has been allowed to determine the prices.
- **Financial sector reforms:** Financial sector includes (a) Banking and non-banking financial institutions (b) Stock exchange market (c) Foreign exchange market.
- The various reforms are:
 - (i) **Role of RBI:** The financial sector in India is regulated by the Reserve Bank of India (RBI). All banks and other financial institutions in India are regulated through various norms and regulations of the RBI. One of the major aims of financial sector reforms is to reduce the role of RBI from regulator to facilitator of

financial sector. This means that the financial sector may be allowed to take decisions on many matters without consulting the RBI.

- (ii) **Establishment of private sector banks:** The reform policies led to the establishment of private sector banks, Indian as well as foreign.
- (iii) **Foreign investment:** Foreign investment limit in banks was raised to around 50 %.
- (iv) **Foreign Institutional Investors (FII):** such as merchant bankers, mutual funds and pension funds, are now allowed to invest in Indian financial markets.
- **Fiscal reforms:** Tax reforms are concerned with the reforms in the government's taxation and public expenditure policies, which are collectively known as its fiscal policy.
 - (i) **Reduction in direct taxes:** Since 1991, there has been a continuous reduction in the taxes on individual incomes as it was felt that high rates of income tax were an important reason for tax evasion. It is now widely accepted that moderate rates of income tax encourage savings and voluntary disclosure of income.
 - (ii) **Reform of indirect taxes (GST):** Recently, the Parliament passed a law, Goods and Services Tax Act 2016, to simplify and introduce a unified indirect tax system in India. This law came into effect from July 2017. This is expected to generate additional revenue for the government, reduce tax evasion and create 'one nation, one tax and one market'.
 - (iii) Simplification of tax - paying procedure.
- **Foreign exchange reforms:**
 - (i) Devaluation of rupee: The first important reform in the external sector was made in the foreign exchange market. In 1991, as an immediate measure to resolve the balance of payments crisis, the rupee was devalued against foreign currencies. This led to an increase in the inflow of foreign exchange.
 - (ii) Foreign exchange reforms: Markets determine exchange rates based on the demand and supply of foreign exchange.
 - (iii) Foreign trade policy: Liberalisation of trade and investment regime was initiated to increase international competitiveness of industrial production and also foreign investments and technology into the economy. The aim was also to promote the efficiency of local industries and adoption of modern technologies. The trade policy reforms aimed at (a) dismantling of quantitative restrictions on imports and exports (b) reduction of tariff rates and (c) removal of licensing procedures for imports.

Salient features of trade policy after liberalisation:

- (i) Import quotas have been abolished
- (ii) Import licensing has been abolished
- (iii) Moderation of import duty
- **Privatisation:** Privatisation is the general process of involving the private sector in the ownership or operation of state-owned enterprises.
- Policies adopted for privatization:
 - Contraction of public sector.
 - Abolish the ownership of Government in the management of public enterprises.
 - Sale of shares of public enterprises.
- **Globalization:** "Globalisation is generally understood to mean integration of the economy of the country with the world Economy" It is an outcome of the set of various policies that are aimed at transforming the world towards greater interdependence and integration.
- **Outsourcing:** In outsourcing, a company hires regular service from external sources, mostly from other countries, which was previously provided internally or from within the country (like legal advice, computer service, advertisement, security - each provided by respective departments of the company. As a form of economic activity, outsourcing has intensified, in recent times, because of the growth of fast modes of communication, particularly the growth of Information Technology (IT). Many of the services such as voice-based business processes (popularly known as BPO or call centers), record keeping, accountancy, banking services, music recording, film editing, book transcription, clinical advice or even teaching are being outsourced by companies in developed countries to India.

- **World Trade Organisation (WTO):** The WTO was founded in 1995 as the successor organisation to the General Agreement on Trade and Tariff (GATT). GATT was established in 1948 with 23 countries as the global trade organization to administer all multilateral trade agreements by providing equal opportunities to all countries in the international market for trading purposes.
 - Policy promoting globalization:
 - Increase in equity limit of foreign investment.
 - Long term trade policy.
 - Partial convertibility.
 - Reduction in tariff.
- **An Appraisal of LPG Policies:**
 - Positive Impact:**
 - Increase in foreign investment
 - A check of inflation.
 - Increase in exports.
 - Increase in foreign exchange reserves
 - Increase in domestic product.
 - Consumer sovereignty.
 - Negative Impact.**
 - Neglect of agriculture
 - Increase in competition for domestic industry.
 - Disaffect of disinvestment policy.
 - Cultural erosion.
 - Increase in urbanization.
 - Spread of consumerism.
- **Demonetisation:** “Demonetisation refers to withdrawal of the status of ‘legal tender’ to the currency in circulation” (Demonetisation notes of ₹500 & ₹1000 with immediate effect on 08 Nov, 2016)
- **Financial Inclusion:**
 1. People could deposit ₹500 & ₹1000 banned notes in the banks
 2. Millions Of the people opened their bank accounts to deposit their cash transactions
 3. As those who were not used to banking, started participating in the organized financial system of the country.
- **Was Demonetisation A Good Policy Decision?**
- **MERITS:**
 1. It was a good move because it induced people shift to the digital mode of transactions
 2. Its improved the degree of financial inclusion in the economy
 3. It moves as it unearthed the stock of black money in the economy
 4. Reducing levels of corruption
 5. It well leads to money supply contraction in the form of cash
- **Demerits:**
 1. It led to a severe cash crunch in our cash-sensitive economy
 2. Fall in production activity
 3. Fall (dent) in GDP growth
 4. Opportunities of employment were also deeply hurt.
- **Goods And Service Tax:** GST was implemented from 1st July 2017.” GST is one tax replacing all indirect taxes in the economy”. Also, it is a uniform tax across all part of country ‘one tax, one nation, one market’
- **Types of GST in India:** A types – CGST, SGST, IGST and UTGST.
- **GST SLAB:** 0% (zero) or exempt category, It includes items of common man consumption (three items exempted from the GST- Common salt, Health service, Educational services).
- **04 slabs GST:** (i) 5% GST category (This includes of mass consumption, such a medicines. tea, sugar) (ii) 12% GST category (This includes computers, processed food) (iii) 18% GST category (This includes hair oil, toothpaste, soaps, pasta, cakes) (iv) 28% GST category, This is the highest GST (This includes luxury items)

QUESTION BANK

MULTIPLE CHOICE QUESTIONS

- In 1991, India met with an economic crisis due to _____.
(a) Rise in foreign exchange reserves (b) Fall in Price
(c) Huge debts burden (d) Good performance of public sector undertakings
- The most urgent problem which promoted the introduction of New Economic Policy in 1991 Was:
(a) Bad performance of public sector units (b) Foreign exchange crises
(c) High tax rates leading to tax evasion (d) Both (a) and (b)
- Which of the policy is not initiated under the new economic policy?
(a) Liberalization (b) Privatisation (c) Globalisation (d) Urbanization
- _____ means integrating the domestic economy with the world economy.
(a) Globalisation (b) Liberalization (c) Privatisation (d) Demonetisation
- _____ refers to relaxation of Government restrictions.
(a) Privatisation (b) Globalisation (c) Disinvestment (d) Liberalisation
- Foreign exchange reforms was done by
(a) Devaluing the Rupee against foreign currency
(b) Introducing the fixed exchange rate system
(c) Determination of the exchange rate by the market forces
(d) Both (a) and (c)
- Government taxation and expenditure policy is known as
(a) Trade policy (b) Monetary policy (c) Fiscal policy (d) Taxation policy
- Import Licensing was abolished except in case of:
(a) Hazardous items (b) Environmentally sensitive industries
(c) Both (a) and (b) (d) None
- Industry reserved for public sector:
(a) Defense equipment (b) Atomic energy generation
(c) Railway transport (d) All of these
- Financial sector reforms does not include
(a) Foreign investment limit in banks was raised to around 50 %
(b) Foreign Institutional Investors (FII), allowed to invest in Indian financial markets
(c) Reduce the role of RBI from regulator to facilitator
(d) Removal of licensing procedures for imports
- GATT was established in the year:
(a) 1958 (b) 1948 (c) 1968 (d) 1995
- Which of the following is not a feature of Privatization?
(a) Contraction of public sector (b) Policy of disinvestment
(c) Policy of memorandum of understanding (d) Tax rates have been reduced
- India has become one of the favorable destinations for outsourcing because of this reason:
(a) High wage rates (b) Availability of skilled manpower and accuracy
(c) Low taxes (d) All of these
- The government has made efforts to improve the efficiency of PSU's by giving them in taking managerial decisions.
(a) Money (b) Financial assistance (c) Autonomy (d) None of the above

15. Financial sector reforms mainly relate to:
 (a) Banking sector (b) Foreign exchange market
 (c) Both (a) and (b) (d) Insurance sector
16. The opening up of the Indian Economy has led to
 (a) Fall in foreign exchange and rise in FDI (b) Rise in foreign exchange and fall in FDI
 (c) Rise in foreign exchange and rise in FDI (d) Fall in foreign exchange and Fall in FDI
17. Reforms have not been able to benefit agriculture because of
 (a) Public investment in agriculture sector especially in infrastructure has fallen
 (b) Rise in subsidy
 (c) Rise in import duties on agricultural products
 (d) Shift from production of cash crops to food crops
18. GST was not introduced for the following purpose
 (a) Generate additional revenue for the government, (b) Reduce tax evasion
 (c) To increase direct taxes (d) Create 'one nation, one tax and one market'
19. During the reform period
 (a) Agriculture has declined, industrial sector reported fluctuation, and service sector has gone up.
 (b) Agriculture has gone up., industrial sector reported fluctuation, and service sector has declined
 (c) Agriculture has declined, industrial sector reported gone up, and service sector reported fluctuation
 (d) Agriculture sector reported fluctuation, industrial sector gone down, and service sector has gone up.
20. Aim of demonetization not included was
 (a) Form a less-cash or cash-less economy
 (b) Check on tax evasion
 (c) It will leads to money supply contraction in the form of cash
 (d) Adding savings into the formal financial system
21. Which of the following was not the reason to adopt new economic policy?
 (a) Shortage of foreign exchange reserve. (b) High inflationary pressure
 (c) Debt burden on government (d) Sustained growth in agriculture.
22. For regulating industries, licensing was required for:
 (a) Opening the firm (b) Expansion of production
 (c) Close the firm (d) All of the above.
23. The development of small scale industry requires them to be shielded from the large firms, for this purpose:
 (a) A number of products were reserved for SSI.
 (b) SSI were given concessions such as lower excise duty
 (c) Bank loans at lower interest rate to SSI.
 (d) All of the above.
24. Financial system in India is regulated by:
 (a) Government of India (b) SEBI (c) RBI (d) State government
25. Financial sector reforms do not include:
 (a) Allowing private banks to function.
 (b) Allowing foreign institutional investment in financial sector
 (c) Ending the role of RBI completely as a regulator of financial sector.
 (d) Giving certain managerial freedom to public sector banks.
26. Indian currency was devalued against foreign currency, what effect devaluation could have caused?
 (a) Made import of crude oil costlier (b) Made Indian products cheaper for foreigners
 (c) Enhanced foreign investment (d) All of the above.

27. Which of the following is non price restriction or quantitative restrictions?
 (a) Import licensing (b) Tarrifs (c) Quota (d) Both a&c.
28. _____ is a complex phenomenon, aiming at transforming the world towards greater interdependence and integration.
 (a) Foreign trade (b) Privatisation (c) Liberalisation (d) Globalisation.
29. In _____ a company hires regular service from external source which was previously provided internally.
 (a) Privatisation (b) Liberalisation (c) Outsourcing (d) Foreign direct investment
30. Outsourcing in recent times have intensified because of _____
 (a) Growth of transportation. (b) Growth of Information technology industry.
 (c) Government's initiative (d) None of the above
31. Which of the following services does India majorly outsources?
 (a) Voice based services (b) Record keeping (c) Clinical advices (d) All of the above.
32. _____ have made India destination of global outsourcing.
 (a) Low wage, skilled labour. (b) Presence of adequate infrastructure.
 (c) Highly skilled labour (d) None of the above.
33. WTO is _____ based organization, rather than GATT , trade under which was based on bilateral and multilateral agreements.
 (a) Rule (b) Agreement (c) International (d) Both (a) & (b)
34. In post reform period India has become a major exporter of _____
 (a) Auto parts (b) Engineering goods (c) IT software (d) All of the above
35. Which of the following was not a positive impact of economic reforms?
 (a) Rise in Foreign Direct Investment and foreign Institutional investment.
 (b) Rise in export.
 (c) Rise in employment (d) Growth of service sector.
36. In post reform era industrial growth recorded slowdown, which of the following reason caused such a slowdown?
 (a) Cheaper import (b) Inadequate investment in infrastructure
 (c) High tariff barriers in developed nations (d) All of the above
37. Integrated Good & Services Tax (IGST) is levied by
 (a) Central government (b) State government (c) Union territory (d) Both (a) and (b)
38. What kind of tax is GST?
 (a) Direct tax (b) Indirect tax
 (c) Depend on good and services (d) None of the above.
39. Which of the products are exempted from GST?
 (a) Petroleum (b) Alcohol (c) Fruits and vegetables (d) All of the above.
40. Which state taxes have been subsumed under GST?
 (a) VAT (b) Octroi (c) Custom duty (d) Both (a) and (b)
41. When was demonetization introduced in India:
 (a) 8 November 2016 (b) 9 November 2016
 (c) 8 November 2018 (d) 80 November 2017
42. Which of the following is not the benefit of GST?
 (a) It has created the common market (b) Reduced cascading effect of taxation
 (c) Made tax compliance easier (d) Reduced inflation rate.
43. Privatisation done by selling a part of government equity stake is known as :
 (a) Disinvestment (b) Strategic sales (c) Investment (d) None of the above

44. Flow of foreign investment in India was a result of:
 (a) Liberalisation (b) Privatisation (c) Globalisation (d) All of the above.
45. _____ has been removed to increase the competitive position of Indian goods in international markets.
 (a) Import duties (b) Export duties (c) Tariffs (d) quota
46. Which of the following stands true for foreign exchange market reforms?
 (a) Devaluation of currency (b) Free determination of rupee value
 (c) It was to correct balance of payment crisis (d) All of the above

INPUT TEXT BASED MCQs

Read the following passage and write answers of Q47–Q51

The case for privatisation is based on the belief that the private sector is more efficient, and that public sector units do better when in private hands. But what does the evidence tell us? These are issues to ponder as India embarks on a major sell-off.

India, it seems, is on the verge of its most ambitious privatisation drive ever. In the Union Budget for 2021-22, Finance Minister Nirmala Sitharaman announced that outside four strategic sectors, public sector units (PSUs) in the non-strategic sectors would be privatised or closed. In the strategic sectors themselves a bare minimum of PSUs will be present. The four sectors are atomic energy, space and defence; transport and telecommunications; power, petroleum, coal and other minerals; and banking, insurance and financial services.

We have not been told the time frame for implementation of this policy. The expression being used is 'privatisation', not 'disinvestment', which is the sale of minority stakes in PSUs. The change in lexicon has been widely noted. The government's privatisation programme has the support of much of the intellectual community. Several economists have been urging the government for years to step up privatisation, most recently at a meeting with the prime minister in early January. The ideological reason is the superior efficiency that is said to be associated with the private sector relative to the public sector.

The government has, however, not articulated the case for privatisation at any length. The Economic Survey of 2019-20 highlighted the efficiency gains from privatisation. In recent months, economists have said that the government needs to increase investment in infrastructure and, in the present fiscal situation, the necessary resources can come only from privatisation.

There you have the two principal reasons for privatisation. The ideological reason is the superior efficiency that is said to be associated with the private sector relative to the public sector. The practical reason is that the government's finances are strained and it looks to augment its resources by selling government assets, notably PSUs.

47. The Government in recent drive to privatization plans to privatize its CPSE'S leaving bare minimum presence in 4 sectors, Which of the following is not the strategic sector as given in the article?
 (a) Coal and mineral (b) Power and petroleum (c) Textile and handloom (d) Energy space and defence.
48. During reforms how did government made attempts improving the performance of PSU's.
 (a) Giving PSU's Financial support.
 (b) Giving them greater autonomy in managerial and operational decision making.
 (c) Providing technological support.
 (d) All of the above.

Study the table and answer the questions Growth of GDP and major sector (in %)

Sector	1980-91	1992-2001	2002-07	2007-12	2012-13	2013-14	2014-15
Agriculture	3.6	3.3	2.3	3.2	1.5	4.2	-0.2
Industry	7.1	6.5	9.4	7.4	3.6	5	5.9
Service	6.7	8.2	7.8	10	8.1	7.8	10.3
Total	5.6	6.4	7.8	8.2	5.6	6.6	7.2

49. Which sector has faced declined growth during reform period?
 (a) Service (b) Industrial (c) Agriculture (d) Agriculture and service.

50. _____ sector became the major driver of growth after reforms.
 (a) Service (b) Industrial (c) Agriculture (d) Both (a) & (c)
51. _____ sector witnessed steep decline in 2012-13.
 (a) Service (b) Industrial (c) Agriculture (d) All of the above

Read the following passage and write answers of Q52–Q55

Goods & Services Tax completes four years of its implementation, the words of our former Finance Minister, Arun Jaitley, in the Parliament’s Central Hall on the midnight of 30 June 2017 still reverberates afresh in our ears “The goods and service tax may be a destination tax, but for India it will begin an altogether new journey...”. Indeed, for India, a completely new journey commenced on July 1, 2017 with goods and services tax, being touted as one of the biggest economic reforms of independent India, which set sail in the country after a decade of deliberations. The voyage of four years has been a roller-coaster ride for all stakeholders with equitable share of hits, misses and expectations.

Besides removing the cascading effect of taxation, one of the biggest hits in the journey of GST has been the pursuit towards achieving an automated indirect tax ecosystem. From electronic compliances, generation of e-invoices to tracking movement of goods through e-waybill, everything is sought to be run online. E-invoicing system is not only aimed at weeding out the rampant menace of fake invoicing, but would also usher the taxpayers into a fully automated compliance regime wherein the computation of tax liabilities and matching of input tax credit would become very simple. This is no mean feat and not many countries in the world have attempted or been able to achieve the implementation of such a large scale and complex digital tax transformation project.

52. Goods and Services Tax Act, 2016, which came into effect from July 2017, is expected to:
 (a) Generate additional revenue for the government. (b) Reduce tax evasion.
 (c) Create ‘one nation, one tax and one market’ (d) All of the above
53. GST is a _____ based tax structure.
 (a) Destination based/ consumption based (b) Production based
 (c) Both (a) and (b) (d) None of the above
54. Under GST how many standard rates are there?
 (a) One (b) Five (c) Four (d) Two
55. How did GST remove ‘Cascading effect of taxation’?
 (a) By providing e way bill (b) By providing input tax credit.
 (c) By reducing tax (d) None of the above.

Read the following passage and write answers of Q56–Q59

On November 8, 2016, Prime Minister Narendra Modi in a surprise announcement said the existing higher denomination currency (₹500 and ₹1000) will cease to be legal tenders. PM said this is government’s biggest push to fight black money and end corruption. The opposition, however, criticised the government for poor implementation of the scheme and said a lot of people have died standing in queues trying to get their hands on the new currency.

The government also introduced new ₹500 and ₹2000 notes and urged people to move towards cash-less economy. But the opposition has been protesting the government’s decision, even stalling Parliament. A ‘Jan Aakrosh Diwas’ was observed by Left and other major parties.

This is not the first time that demonetisation has been implemented in India. In 1936, ₹10,000, which was the highest denomination note, was introduced but was demonetised in 1946. Though, it was re-introduced in 1954 but later, in 1978, the then Prime Minister Morarji Desai in his intensive move to counter the black money, introduced The High Denomination Banks Act (Demonetisation) and declared ₹500, ₹1000 and ₹10,000 notes illegal.

56. _____ id the highest denomination note which has been demonetized.
 (a) 10000 (b) 500 (c) 1000 (d) 2000
57. Which of the following was the objective of demonetization?
 (a) To eliminate fake currency (b) To prevent terrorism financing
 (c) Take away black money from economy (d) All of the above

58. Before 2016 how many times demonetization has been done earlier?
 (a) One (b) Two (c) Four (d) None of these
59. How did demonetisation impacted demand deposit with banks?
 (a) It increased demand deposit (b) It reduced demand deposit
 (c) Did not affected (d) Can't be determined

ANSWERS

Multiple Choice Questions

1. (c) 2. (d) 3. (d) 4. (a) 5. (d) 6. (d) 7. (c) 8. (c) 9. (d) 10. (d)
 11. (b) 12. (d) 13. (b) 14. (c) 15. (c) 16. (c) 17. (a) 18. (c) 19. (a) 20. (c)
 21. (d) 22. (d) 23. (d) 24. (c) 25. (c) 26. (d) 27. (d) 28. (d) 29. (c) 30. (b)
 31. (d) 32. (a) 33. (a) 34. (d) 35. (c) 36. (d) 37. (d) 38. (b) 39. (d) 40. (d)
 41. (a) 42. (d) 43. (a) 44. (d) 45. (b) 46. (d)

Input Text Based MCQs

47. (c) 48. (b) 49. (c) 50. (a)
 51. (b) 52. (d) 53. (a) 54. (b) 55. (b) 56. (a) 57. (d) 58. (b) 59. (a)

