ECONOMIC REFORMS

1***. Why were reforms introduced in India?***

OR

Explain the factors which forced the government to introduce economic reforms in 1991.

OR

Why did India adopt the New Economic Policy (LPG Policy) in 1991?

OR

Examine the background behind the launching of the New Economic Policy in 1991.

The economic crisis of 1991 forced the government to adopt the New Economic Policy.

(i) Fiscal deficit: The government's expenditure was much more than its income. So, the government was compelled to borrow money from international organizations. Public debt became very high. A huge amount had to be paid as interest every year.

(ii) Unfavourable Balance of Payments: Value of import became much more than the value of exports. The foreign exchange reserve became very low. The country was finding it very difficult to meet the import expenditure.

(iii) Gulf Crisis: A large number of Indians are working in Gulf countries. The Iraq war affected them badly. Many of them returned to India. So, the earnings from Gulf countries declined sharply.

(iv) Inflation: Prices of essential goods increased sharply. This affected the poor and salaried people very badly. Living standard of the people came down.

(v) Poor performance of the Public Sector Industries: Many of the PSUs became sick units. Inefficiency and corruption resulted in the downfall of the PSUs.

(vi) Role of IMF and World Bank: India got a loan of $ 7 billion from IMF and World Bank. They instructed India to introduce economic reforms.

2. What are the two categories in to which the New Economic Policy (NEP) can be classified?

The NEP can be classified in to two categories:

(i) Stabilisation measures: They are short term measures to increase foreign exchange reserve and to control Inflation.

(ii) Structural Reforms: They are long term measures. Liberalisation, Privatisation and Globalisation are the structural reform measures.

3. ***What do you mean by Liberalisation? Mention the liberalization measures introduced in the Indian Economy.***

Liberalisation refers to withdrawing all the control and restrictions imposed on the economy by the government.

Liberalisation in Industrial Sector (Industrial Sector Reforms)

(i) Abolition of Industrial Licensing: Licensing has been abolished for all most all products except dangerous and harmful goods like alcohol, cigarettes, explosives etc. Licensing is also not needed for increasing production capacity.

(ii) ***De- reservation of production areas:*** The goods which were earlier reserved for the small scale sector have now been opened for large scale units also.

(iii) Freedom to import capital goods: All the restrictions on the import of machines, tools and equipments have been removed.

(iv) Withdrawal of Price Restriction: The practice of Government fixing the prices of necessary goods was stopped. Market is given freedom to decide prices.

Financial Sector Reforms

(i) The role of RBI has been changed from that of a regulator to a facilitator. Banks and other financial institutions are given freedom to take independent decisions.

(ii) Permission was given to start private banks.

(iii) Foreign Direct Investment in the banking sector is increased to 50%.

(iv) Banks are given freedom to set up new branches without the permission of RBI.

(v) Foreign Institutional Investors such as merchant bankers, mutual funds and pension funds are allowed to invest in India.

Tax Reforms

(i) Income tax rates have been reduced. This was done tro discourage tax evasion.

(ii) Corporation tax has also been reduced to encourage investment.

(iii) Goods and Services Tax (GST) was introduced to replace a large number of indirect taxes.

(iv) Tax structure has been made simple.

Foreign Exchange Reforms

(i) Rupee had been devalued. It was done to encourage exports and discourage imports.

(ii) India changed from fixed exchange rate system to flexible exchange system. Market forces are allowed to determine the exchange rates.

Trade and Investment Policy Reforms

(i) Import licensing has been abolished except for dangerous and harmful goods.

(ii) Import and export quotas have been abolished.

(iii) Customs duties were reduced. Export duties have been abolished for most of the goods.

4. Why are tariffs imposed?

Tariffs are imposed to restrict foreign trade. High import duty will make foreign goods costly in India. This will help domestic industries to sell their goods in our markets. High export duty will discourage exports. This will help home consumers to get goods in sufficient quantities.

5. What is the most important function of the RBI?

Regulate and supervise the banks and other financial institutions.

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

Before 1991, RBI played the role of regulator of financial institutions. Banks and other financial institutions had to work under the supervision and directions of RBI. All those restrictions prevented the growth of financial sector. Foreign investors were discouraged. So, our Government decided to change the role of RBI from regulator to facilitator. Banks got more freedom to take decisions. Private Banks are allowed. Foreign investment is allowed.

7. How is RBI controlling the commercial banks?

(i) A commercial bank can be started only after getting license from RBI. RBI can ask a bank to wind up.

(ii) RBI conducts periodic inspection in commercial banks.

(iii) It can issue guidelines to banks. It can ask commercial banks to give loans to farmers and other poor people.

(iv) It fixes the Cash Reserve Ratio and Statutory Liquidity ratio.

8. Distinguish between strategic and minority sale.

Strategic sale refers to the sale of 51% or more of the shares of Public Sector Undertakings to private sector. Ownership and management of the company will pass on to the private sector.

Minority sale refers to the sale of less than 49% of the shares of PSUs to the private sector. Ownership and management will remain with the Government.

9. Distinguish between Bilateral and Multi – lateral Trade.

Bilateral Trade agreement is between two countries. They give most favoured nation status to each other. They frame rules and regulations and trade based on those rules.

Multi – lateral trade agreement is an agreement between several countries. All the members have most favoured nation status. Countries trade with each other as per the rules in the general agreement.

10. Distinguish between Tariff and Non Tariff barriers.

Tariff Barriers: Customs duties can be used as trade barrier. Heavy import duty can discourage import and heavy export duty can reduce exports. Countries used tariff barriers to protect domestic producers and domestic consumers.

Non Tariff Barriers: They are also called quantitative restrictions. The countries impose import quota and export quota. Quota refers to the maximum quantity that can be imported or exported. Quotas discourage import and export.

11. What is the meaning of quantitative restrictions?

Quantitative restrictions refer to import quota and export quota. Quota refers to the maximum quantity that can be imported or exported. Quotas discourage import and export.

12. What do you mean by Privatisation? Why did our government decide to privatise the Public Sector undertakings?

Privatisation refers to disinvestment in the public sector. The government decided to sell the shares of PSUs to the private individuals. The aim was to improve efficiency in the industrial sector.

REASONS FOR PRIVATISATION

(i) Many of the PSUs became sick units. They became a social burden

(ii) Industrial efficiency and productivity became low.

(iii) The government wanted to raise money for social welfare programmes.

(iv) Corruption became widespread in the Public Sector.

(v) People were not able to get good quality goods and services.

13. State the merits and demerits of privatisation of Public Sector undertakings

MERITS OF PRIVATISATION

(i) Efficiency and productivity of industrial sector improved.

(ii) The government could get enough money for social welfare programmes.

(iii) Industrial development became faster. The private enterprises earn profits and reinvest the profits.

(iv) Consumers are able to get good quality goods and services.

DEMERITS OF PRIVATISATION

(i) It is against the national goal of Socialism. It will take the country close to Capitalism.

(ii) Private producers are aimed at maximization of profits. They will not give importance to socially desirable goods and services.

(iii) Workers will be exploited. Their life will become difficult.

14. State the measures taken for Privatisation.

Government companies are converted in to private companies in two ways:

(i) Government withdraws from the ownership and management of Public Sector Undertakings.

(ii) Outright sale of PSUs to Private Sector.

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

No, I do not agree with the privatization of profit making Public Sector Undertakings.

(i) Profit making PSUs are assets of the government. The profit earned by them can be reinvested. This will help in industrial growth.

(ii) Privatisation is against the national goal of Socialism. It will take the country close to Capitalism.

(iii) Private producers are aimed at maximization of profits. They will not give importance to socially desirable goods and services.

(iv) In private sector the workers will be exploited. Their life will become difficult.

16. Define Globalisation. Mention the steps taken to globalise the Indian Economy.

Globalisation refers to the integration of our economy with the world economy. It is a system in which goods, services, investment and people move freely across the political boundaries.

Measures taken for the Globalisation of the Indian Economy

(i) Restrictions on foreign investments have been removed. Now in many production areas 100% foreign direct investment is allowed.

(ii) Import and export quotas have been removed. Customs duties have been reduced.

(iii) Partial convertibility of Indian rupee is permitted. The rupee has been devalued.

(iv)The country adopted a long term trade policy.

17. What is Outsourcing? Why is India a favourite destination for outsourcing?

Outsourcing is a practice in which a company hires regular services from external sources, mostly from other countries. Legal service, computer service, advertisement service, data entry, accounting service etc are outsourced by the companies of developed countries. The growth of Information Technology helped in the growth of outsourcing.

India is a favourite outsourcing destination because:

(i) Wage rates are low in India. So, companies can reduce their cost of production.

(ii) India has a lot of skilled man power with good English knowledge.

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

Outsourcing is good for India because:

(i) It provides employment opportunities to a large number of educated people.

(ii) It enables India to earn a lot of foreign exchange.

(iii) It improves the GDP of our country. Economic growth rate increases.

Developed countries are opposing outsourcing because:

(i) It reduces employment opportunities in their countries.

(ii) It leads to the outflow of foreign exchange.

(iii) It affects their growth rate.

19. Write a note on WTO.

(i) WTO (World Trade Organisation) was started in 1995 to replace General Agreement on Trade and Tariff (GATT).

(ii) It is an international organization that promotes foreign trade and foreign investment.

(iii) It aims at the removal of tariff and non tariff barriers to foreign trade.

(iv) WTO discourages bilateral trade agreements and supports multi lateral trade agreements.

20. How many countries are members of WTO?

As on 14 July 2016, there are 164 members in WTO.

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

(i) All member countries get Most Favoured Nation status. This will help us to increase our trade with other countries.

(ii) WTO promotes multi lateral trade agreements. It enables us to trade with several countries without any restrictions.

(iii) Removal of trade barriers allow our goods to enter in to the markets of other countries.

(iv) WTO also aims at increase in production capacity and protection of environment. It benefits India.

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

The Government has given Navaratna, Mahanavaratna and Mini Navaratna status to some of the important profit making Public Sector Companies.

(i) They got financial, operational and managerial autonomy. They can take independent decisions.

(ii) They can raise financial resources from the financial markets.

(iii) This policy enabled them to improve their efficiency and to become internationally competitive.

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

(i) Globalisation resulted in the rapid growth of transport and communication facilities.

(ii) Development of Information Technology resulted in the growth of new services like Software Technology Parks, BPOs etc.

(iii) Foreign investment in Banking, Insurance and other financial institutions contributed to their growth.

(iv) Increase in income of the people led to increase in demand for private schools, private hospitals etc.

(v) Arrival of MNCs resulted in the growth of infrastructural facilities like transport, banking, insurance etc.

(vi) Spread of educational and health care services also contributed to the growth of service sector.

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

(i) Agricultural growth rate decreased in India during the reforms period.

(ii) Public investment in infrastructure development such as irrigation, power, roads etc decreased.

(ii) Removal of fertilizer subsidy affected the small and marginal farmers. Their cost of production increased.

(iii) Reduction in import duty and the removal of import quota resulted in the arrival of foreign agricultural goods to our markets. Demand for our goods decreased.

(iv) Removal of Minimum Support Price made the farmers vulnerable to market risks.

(v) Farmers were encouraged to produce cash crops for export market. It resulted in the increase in prices of food grains.

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

(i) Industrial growth rate slowed down in India during the reform period.

(ii) Demand for our industrial products decreased due to the arrival of foreign goods.

(iii) Our markets are opened for foreign goods. However, the developed countries have not opened their markets for our goods.

(iv) Reduction in public investment in infrastructural facilities also affected industrial growth.

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

(i) Fall in agricultural production during the reform period added to poverty and unemployment in rural areas. Several farmers committed suicide.

(ii) Cutting of subsidies increased the cost of production of farmers. Farming became a loss making business.

(ii) Privatisation made the life of workers miserable. They lost job security.

(iv) Profit became the only aim of production. So, the production of socially desirable goods and services is neglected.

(v) International competition resulted in the decline of small scale industries. Several workers became unemployed.

(vi) Coming up of MNCs created a lot of job opportunities for educated people, especially women.

27. How did the new economic policy (Economic Reforms) affect the economic growth of India?

(i) Economic growth is measured in terms of GDP. India's GDP growth rate increased from 5.6% during 1980 – 91 to 8.2 % during 2007 – 12.

(ii) The growth of agriculture declined.

(iii) Industrial sector reported fluctuating growth rate.

(iv) Service sector has grown rapidly. The growth rate of service sector reached 10.3% in 2014 – 15.

28. How did the new economic policy (Economic Reforms) affect Foreign Investment?

(i) Foreign Direct Investment and Foreign Institutional Investment increased from US$ 100 million in 1990 -91 to US$36 billion in 2016 – 17.

(ii) Foreign exchange reserve increased from US $ 6 billion in 1990 – 91 to US $360 billion in 2014 – 15.

(iii) Today, India is one of the largest foreign exchange reserve holders in the world.

(v) Farmers were encouraged to produce cash crops for export market. It resulted in the increase in prices of food grains.

29. How did the new economic policy (Economic Reforms) affect Industrial Sector?

(i) Industrial growth rate slowed down in India during the reform period.

(ii) Demand for our industrial products decreased due to the arrival of foreign goods.

(iii) Our markets are opened for foreign goods. However, the developed countries have not opened their markets for our goods.

(iv) Reduction in public investment in infrastructural facilities also affected industrial growth.

30. Write a note on the disinvestment process during the reform period.

(i) In 1991 -92 the target for disinvestment was to collect ` 2500 crores by disinvestment. The actual collection was` 3040 crores.

(ii) In 2017 – 18 the target was ` 1 lakh crores. The actual collection was ` 1 lakh 57 crores.

31. What are the criticisms against the disinvestment policy followed during the reform period?

(i) Assets of Public Sector units were undervalued and sold to the private sector. It caused a lot of loss to the Government.

(ii) The money collected from disinvestment was not use for welfare activities. It was used to overcome the revenue deficit of the Government,

(iii) Mostly profit making PSUs were sold to private sector.

32. How did the new economic policy (Economic Reforms) affect the fiscal policy of the Government?

(i) Public expenditure on social sectors reduced during reform period.

(ii) Reduction in taxes affected the revenue receipts of the Government.

(iii) Reduction in customs duties and tax concessions to foreign investors also affected Government’s revenue.

33. Examine the merits and demerits of the New Economic Policy.

OR

Critically assess the achievements and short comings of the LPG policy.

MERITS OR POSITIVE IMPACT OF THE NEW ECONOMIC POLICY (LPG POLICY)

(i) Economic growth is measured in terms of GDP. India’s GDP growth rate increased from 5.6% during 1980 – 91 to 8.2 % during 2007 – 12.

(i) Foreign Direct Investment and Foreign Institutional Investment increased from US$ 100 million in 1990 -91 to US$36 billion in 2016 – 17.

(ii) Foreign exchange reserve increased from US $ 6 billion in 1990 – 91 to US $360 billion in 2014 – 15.

(iv) Service sector developed. It provides employment to a large number of educated people.

(v) Disinvestment enabled India to collect a lot of money and use it for welfare activities.

DEMERITS OR NEGATIVE IMPACT OF THE NEW ECONOMIC POLICY

(i) Industrial growth rate slowed down in India during the reform period. Demand for our industrial products decreased due to the arrival of foreign goods.

(ii) Agricultural growth declined. Our agricultural goods face competition from the goods of other countries.

(iii) Public expenditure on social sectors reduced during reform period. Reduction in taxes affected the revenue receipts of the Government.