Detailed Study Notes: Chapter 3 - Liberalisation, Privatisation and Globalisation

Based on the NCERT Class 11 Economics textbook, here are comprehensive, notes for your exams !

Introduction to Economic Reforms (1991)

Why Reforms Were Needed:
The reforms of 1991 were introduced because India faced a severe economic crisis. The chapter covers the period from 1991 onwards when India shifted from a regulated economy to a more open market-oriented economy.

BACKGROUND - The 1991 Economic Crisis

Key Problems Before 1991:

Fiscal Crisis:

- Government was spending more than it earned
- Heavy borrowing led to increasing debt burden
- Budget deficit was rising continuously

Balance of Payments Crisis:

- India's foreign exchange reserves fell to dangerous levels (could finance only 2 weeks of imports)
- Rising imports and declining exports
- Gulf War (1990-91) increased oil prices, worsening the situation

Inflation:

- Prices of goods were rising rapidly
- Common people's purchasing power was declining

Poor Economic Performance:

- Low GDP growth rate
- Industrial sector was stagnant
- Agricultural growth was inconsistent

Immediate Trigger:

- By 1991, India was on the verge of defaulting on international loan payments
- Had to pledge gold reserves to secure emergency loans
- This forced the government to introduce major economic reforms

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LIBERALISATION

Definition: Liberalisation means removing unnecessary controls and restrictions on the smooth functioning of business and industry.

Key Measures of Liberalisation:

A. Industrial Sector Reforms:

1. Abolition of Industrial Licensing
    - Earlier: Industries needed government permission (license) to start/expand
    - After reforms: License requirement removed for most industries
    - Exception: Industries related to security, environment, and hazardous chemicals still need licenses
2. Contraction of Public Sector
    - Number of industries reserved for public sector reduced from 17 to 2
    - Private sector allowed in most areas
    - Only atomic energy and railways remained with government
3. Dereservation of Small Scale Industries (SSI)
    - Many products reserved for SSI sector opened for large industries
    - Aimed at improving competitiveness
4. Freedom in Expansion
    - Firms no longer need permission to expand capacity
    - Can decide their own production levels

B. Financial Sector Reforms:

1. Banking Sector:
    - Interest rates partially freed from government control
    - Banks can now set their own interest rates (within limits)
    - Foreign banks allowed to operate in India
    - Banks allowed to raise capital from markets
2. Reduction in Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR):

        - Banks required to keep less money with RBI
        - More funds available for lending
        - Helps in economic growth
3. Competition in Banking:
    - Private sector banks permitted
    - Increased competition improved services

C. Tax Reforms:

1. Reduction in Tax Rates:
    - Corporate tax rates reduced
    - Personal income tax rates lowered
    - Made tax structure more rational
2. Simplification:
    - Tax procedures made simpler
    - Reduced tax evasion
    - Increased tax compliance

D. Foreign Exchange Reforms:

1. Devaluation of Rupee:
    - Rupee value adjusted to market rates
    - Made exports more competitive
2. Rupee Made Convertible:
    - Current account convertibility allowed
    - Easier to convert rupee for trade transactions

PRIVATISATION

Definition: Privatisation means transfer of ownership or management of public sector enterprises to private sector.

Forms of Privatisation:

A. Disinvestment:

- Government sells its shares in public sector companies
- Reduces government stake in PSUs
- Example: Sale of shares of ONGC, BHEL, etc.

B. Complete Privatisation:

- Full transfer of ownership to private parties
- Government exits completely from the enterprise

C. Denationalisation:

- Transfer of ownership and management to private sector
- Example: Balco, VSNL

Objectives of Privatisation:

1. Improve Efficiency:
    - Private management considered more efficient
    - Better utilization of resources
2. Reduce Government Burden:
    - Government relieved from managing loss-making units
    - Reduces fiscal deficit
3. Raise Revenue:
    - Sale proceeds used for development projects
    - Reduces government borrowing
4. Competition:
    - Breaks government monopolies
    - Improves quality and reduces prices
5. Professional Management:
    - Private sector brings better management practices
    - Focus on profitability and growth

GLOBALISATION

Definition: Globalisation means integration of the Indian economy with the world economy. It involves free flow of goods, services, capital, technology, and people across countries.

Key Measures of Globalisation:

A. Foreign Trade Reforms:

1. Import Liberalisation:
    - Quantitative restrictions on imports removed
    - Import duties reduced significantly
    - Easier to import capital goods and technology

2. Export Promotion:
    - Export duties removed/reduced
    - Special Economic Zones (SEZs) created
    - Incentives provided to exporters

B. Foreign Investment Reforms:

1. Foreign Direct Investment (FDI):
    - FDI allowed in many sectors (up to 100% in some)
    - Automatic approval route introduced
    - Encourages foreign companies to invest in India
2. Foreign Institutional Investment (FII):
    - Foreign investors can invest in Indian stock markets
    - Brings foreign capital into the country
3. Removal of Restrictions:
    - FERA (Foreign Exchange Regulation Act) replaced by FEMA
    - FEMA more liberal and investor-friendly

C. Foreign Technology:

- Easy access to foreign technology
- Technology transfer agreements simplified
- Helps modernization of Indian industry

Impact of Globalisation:

Positive:

- Access to larger markets
- Technology transfer
- Increased competition leads to efficiency
- More choices for consumers
- Foreign capital inflow

Negative:

- Increased competition threatens domestic industries
- Small producers find it difficult to compete
- Job security reduced
- Cultural homogenization concerns

INDIAN ECONOMY DURING REFORMS: AN ASSESSMENT

Positive Outcomes:

A. GDP Growth:

- GDP growth rate increased from around 5.5% (1980s) to over 7% in post-reform period
- India became one of the fastest-growing economies

B. Foreign Investment:

- Large inflow of foreign investment (FDI and FII)
- Helped in infrastructure development
- Technology upgradation

C. Foreign Exchange Reserves:

- From crisis level of $1 billion (1991) to over $300 billion
- Provides cushion against external shocks

D. Industrial Growth:

- Manufacturing and service sectors expanded
- Emergence of new industries (IT, telecom, aviation)
- Indian companies became globally competitive

E. Exports:

- Export growth increased
- Share in world trade improved
- Services exports (IT, BPO) grew rapidly

F. Consumer Benefits:

- Better quality products available
- More choices
- Competitive prices
- Improved services

Challenges and Concerns:

A. Agriculture:

- Agricultural growth remained sluggish
- Farmer distress increased in some regions
- Employment in agriculture didn't decline as expected

B. Industrial Sector:

- Small-scale industries faced intense competition
- Some traditional industries declined
- Import competition hurt domestic producers

C. Employment:

- Jobless growth - GDP grew but employment didn't increase proportionately
- Informal sector employment increased
- Job security reduced

D. Regional Disparities:

- Benefits of reforms concentrated in certain states
- Rural-urban divide increased
- Some regions left behind

E. Equity Concerns:

- Income inequality increased
- Benefits didn't reach all sections equally
- Marginalized sections affected adversely

F. Fiscal Deficit:

- Though reduced, still remains a concern
- Disinvestment targets not always met

G. Trade Deficit:

- Imports grew faster than exports in many years
- Trade deficit widened
- Dependence on foreign capital increased

Critical Analysis:

What Worked:

- Removal of controls improved efficiency
- Competition led to better products
- Economic growth accelerated
- Poverty rates declined
- Foreign reserves became comfortable

What Needs Attention:

- Agricultural sector reforms incomplete
- Employment generation inadequate
- Social sector (health, education) needs more focus
- Regional imbalances need correction
- Small-scale sector needs protection
- Environment concerns

Important Concepts to Remember:

1. LPG Reforms: Liberalisation, Privatisation, and Globalisation
2. 1991 - Year of economic crisis and reforms
3. New Economic Policy (NEP) introduced in July 1991
4. Dr. Manmohan Singh was Finance Minister who introduced reforms
5. P.V. Narasimha Rao was Prime Minister

Exam-Focused Points:

Short Answer Questions:

- Define liberalisation/privatisation/globalisation
- Reasons for 1991 crisis
- Forms of privatisation
- Measures of liberalisation

Long Answer Questions:

- Impact of economic reforms on Indian economy
- Critical assessment of LPG reforms
- Challenges faced after reforms
- Comparison of pre and post-reform economy