1. Details of module and its structure

Module Detail	
Subject Name	Economics
Course Name	Indian Economic Development 01 (Class XI, Semester - 1)
Module Name/Title	Economic Reform Since 1991 – Part 2
Module Id	keec_10302
Pre-requisites	Knowledge about Indian Economy 1950-1990
Objectives	After going through this lesson, the learners will be able to understand the following: • Privatisation • Globalisation • Outsourcing • WTO • Appraisal of LPG Policies
Keywords	Privatisation, globalisation, outsourcing, WTO

2. Development team

Role	Name	Affiliation
National MOOC Coordinator (NMC)	Prof. Amarendra P. Behera	CIET, NCERT, New Delhi
Program Coordinator	Dr. Mohd. Mamur Ali	CIET, NCERT, New Delhi
Course Coordinator (CC) / PI	Prof. Neeraja Rashmi	DESS, NCERT, New Delhi
Subject Matter Expert (SME)	Mr. Naveen Sadhu	Guru Nanak Public School, Rajouri Garden, New Delhi
Review Team	Dr. Meera Malhan Dr. Himanshu Singh	DCAC, University of Delhi Satyawati College (Eve.), University of Delhi

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1. Privatisation

Another important feature of economic reforms is promotion of the policy of privatization. Under this policy, private sector has been allowed to play a major role in different types of economic activities. In other words we can say that privatization is a process that reduces the participation of the state / public sector in the economy.

Privatsation means ***transfer of ownership, management and control of public sector enterprises to the entrepreneurs in the private sector.***

Privatisation implies greater role of the private sector in the economic activities of the country. Over the years, Indian Government has diluted its stake in several public enterprises, including IPCL, IBP, Maruti Udyog, etc.

Privatisation can be done in the following ways:

1. ***Transfer of ownership*** and management of public sector companies from the government to the Private Sector.

2. Privatisation of the public sector undertakings (PSU) by selling off part of the equity of PSUs to the public. This process is known as ***disinvestment.***

3. Entry of private sector industries into the exclusively **reserved industries** for the public sector.

4. **Limiting the scope of public sector** and no further expansion of the existing public sector.

The purpose of privatization was to improve financial discipline and facilitate modernisation. It was also believed that private capital and managerial capabilities will help in improving performance of the PSUs.

2. Arguments in favour and against of Privatisation

In view of the poor performance of public sector enterprises, they were placing a large burden on the economy due to huge losses and growing subsidy payments. Privatisation reduces the financial burden of the government. Privatisation abolishes the monopoly position of the public sector enterprises and helps in improving the competitive strength and efficiency of these enterprises. It helps in improving managerial efficiency as the management is not subjected to unwanted political influence, pressure and interference. There is no political pressure to recruit unwanted staff which leads to improved efficiency of the organization. Quick and timely decisions are keys to get success in this competitive world. The policy of privatisation will be helpful in imparting greater flexibility in the decision-making process as management would be free from any government intervention. Consumer is supreme under privatisation. The survival of private enterprises depends on satisfaction of the consumers. Privatisation will lead to caring of the consumers because of the need for creating and sustaining market. Hence, the quality of service will improve. Besides, Privatisation opens up areas, which were earlier reserved for the public sector, example: the insurance sector. It increases the investment by the private sector, which leads to creation of greater employment and income-earning opportunities in the economy.

Arguments Against privatisation

it is argued that the Social welfare is neglected in the process of privatisation. The private sector enterprises operate mainly with the objective of profit maximization and this system does not guarantee social welfare of the poor people. The private sector does not take interest in projects which are risky and have long gestation period with lower profitability. This may adversely affect the growth of basic and heavy industries and infrastructure in the country. A World Bank study estimates that investment in Infrastructure in India actually declined from 5.4 percent of GDP in 1991-92 to 4.6 percent in 1997-98. Reduction in involvement of the government could result in the substitution of a public monopoly to a private monopoly, which may further lead to monopolistic exploitation by efficient private owners. State monopoly is definitely preferred to private monopoly. Under privatisation, there is always fear of retrenchment and consequent unemployment. Privatisation in many public sector enterprises has led to voluntary retirement of many workers. In this way, this policy may lead to greater incidence of unemployment and poverty in the country.

Navaratnas and Mini Ratnas

In the context of PSUs in India. Navratanas refers to nine such profit making companies which are compared with nine countries in the court of king Vikramaditya who were men of eminence and rare wisdom. The objective of giving titles was to improve the efficiency of public sector undertakings by giving them autonomy in taking managerial decisions. For instance, some PSUs have been granted special status as navaratnas and mini ratnas. For example, BHEL, BPCL, SAIL, etc. They were given managerial and operational autonomy in taking various decisions, to run the company efficiently and to increase their profits. The granting of Navratna status resulted in better performance of these companies. Apart from this, 97 other profit-making enterprises were granted greater operational, financial and managerial autonomy and they were referred to as “Mini Ratnas’.

In June, 2016, there were 17 Navratnas, whose names are:

1. Bharat Electronics Limited
2. Bharat Petroleum Corporation Limited
3. Container Corporation of India Limited
4. Engineers India Limited
5. Hindustan Aeronautics Limited
6. Hindustan Petroleum Corporation Limited
7. Mahanagar Telephone Nigam Limited
8. National Aluminium Company Limited
9. National Buildings Construction Corporation Limited
10. NMDC Limited
11. Neyveli Lignite Corporation Limited
12. Oil India Limited
13. Power Finance Corporation Limited

14. Power Grid Corporation of India Limited
15. Rashtriya Ispat Nigam Limited
16. Rural Electrification Corporation Limited
17. Shipping Corporation of India Limited

3. Globalisation

The term 'Globalisation' indicates the opening of the economy for the world. It implies interaction of the economy relating to production, trading and financial transactions with other countries of the world. The policy of globalisation encourages both foreign trade and foreign investment.

Globalisation means integrating the national economy with the world economy through removal of barriers on international trade and capital movements. Globalisation is the outcome of the policies of liberalisation and privatization. It is the integration of the economy of the country with the world economy, and it is an outcome of the set of various policies that aim to transform the world towards greater interdependence and integration. This involves creation of networks and activities transcending economic, social and geographical boundaries. *In short, globalization aims to create a borderless world.*

Changes made by the Globalisation of the Indian Economy

The New Economic Policy prepared a specified list of high technology and high investment priority industries, in which automatic permission will be available for foreign direct investment up to 51 per cent of foreign equity. In respect of foreign technology agreements, automatic permission is provided in high priority industry upto a sum of rupees 1 crore. No permission is now required for hiring foreign technicians or for testing indigenously developed technology abroad. In order to make international adjustment of Indian currency, rupee was devalued in July 1991 by nearly 20 per cent. It stimulated exports, discouraged imports and raised the influx of foreign capital. To integrate economy with world, the Union budget 1992-93 made Indian rupee partially convertible and then the rupee was made fully convertible in only current account transactions in 1993-94 budget. Five year export-import policy (1992-97) was announced by the Government to establish the framework of globalisation of India's foreign trade. This policy removed all restrictions and controls on the external trade and allowed market forces to play a greater role in respect of exports and imports. In order to bring the Indian economy within the ambit of global competition, the government has modified the customs duty to a considerable extent. Accordingly, the peak rate of customs duty has been reduced from 250 per cent to 10 per cent on certain goods in 2007-2008 budget.

3.1 Positive and Negative Traits of Globalisation

The process of globalisation through liberalisation and privatization policies, has produced positive as well as negative results, both for India and other countries.

Arguments in favour of Globalisation

1. Globalisation led to improved allocative efficiency of resources, reduced the capital output ratio and increased the inflow of foreign capital, it also updated technology into the country and increased the average growth rate of the economy. It led to an increase in the flow of goods and services among countries. As a result world trade has flourished. This in fact, helped in redistribution of production and trade pattern in a capital scarce, labour abundant economies like India. It has increased economic prosperity and opportunity in the developing world. Cheaper and high quality consumer goods would be manufactured in the country with imported technology. There is an improvement in the banking and financial sector with competition from foreign capital and foreign banks.

Arguments against Globalisation

Globalisation has been criticized by some scholars because the benefits of globalisation accrued more to developed countries, as they were able to expand their markets in other countries. Globalisation in fact, compromises the welfare and identity of people belonging to poor countries. Market-driven globalisation increases the economic disparities among nations and people. All countries have become vulnerable to the development outside their own territories (US Sub-prime crisis, Euro crisis etc.)

3.2 Outsourcing

This is an important outcome of the process of globalization. It refers to a system of hiring business services from the outside world. These services include: call centers, transcription, clinical advice, teaching/coaching etc.

India is emerging as an important destination of outsourcing particularly, BPO (Business Process Outsourcing, also called call centers). This is because of (i) availability of cheap labor in India, or relatively low wage rate for the skilled workers, and (ii) a revolutionary growth of IT industry in India.

Some of the services are being outsourced by companies from India include, Voice-based business processes (known as BPO or Call Centres); Record Keeping; Accountancy; Banking services; Music Recording; Film editing; Book transcription; Clinical advice, etc.

3.3 World Trade Organisation (WTO)

General Agreement on Trade and Tariff (GATT) was established as global trade organisation, in 1948 with 23 countries. GATT was set up to administer all multilateral trade agreements by providing equal opportunities to all countries in the international market. WTO was founded in 1995 as the successor organisation to the GATT. The WTO agreements cover trade in goods as well as services, to facilitate international trade. At present, there are 164 member countries of WTO and all the members are required to abide by laws and policies framed under WTO rules. As an important member of WTO, India has been in the forefront of framing fair global rules, regulations and advocating the interests of the developing world. India has kept its commitments made to the WTO. India has taken reasonable steps to liberalise trade by removing quantitative restrictions on imports and reducing tariff rates.

Functions of WTO:

(i) To facilitate international trade (both bilateral and multi-lateral trade) through removal of tariff as well as non-tariff barriers;

(ii) To establish a rule-based trading regime, in which nations cannot place arbitrary restrictions on trade;

(iii) To enlarge production and trade of services;

(iv) To ensure optimum utilisation of world resources; and

(v) To protect the environment.

(vi) To provide a platform to member countries to decide future strategies related to trade and tarrif.

4. An Appraisal of Liberalisation, Privatisation and Globalisation policies (Economic Reforms)

Economic reforms created mixed reactions at different levels. Let us discuss some of the positive and negative aspects of economic reforms.

4.1 Arguments in Favour of Economic Reforms

The following are some of the important arguments advanced in favour of economic reforms:

1. **Higher Growth Rate:** The growth of GDP increased from 5.6 per cent during 1980-91 to 6.1 per cent during 1992-2001 and 8.2 percent in 2007-12. This shows that there has been an increase in the overall GDP growth in the reform period. During the reform period, the growth of agriculture and industrial sectors has declined, whereas the growth of service sector has gone up. This indicates that the growth is mainly driven by the growth in the service sector. Currently, the growth rate of GDP is estimated to be more than 8 per cent.

2. **Rapid increase in foreign direct Investment:** The New Economic Policy has led to the rapid increase in foreign direct investment (FDI) and Foreign Exchange Reserves. There has been an increase in foreign exchange reserves from about US 100 million dollar in 1990-91 to US 350 billion dollar in 2015-16.

3. **Rise in Exports:** The value of India's exports and imports has increased considerably since 1990-91. India experienced considerable increase in exports of auto parts, engineering goods, IT software and textiles.

4. **Check on Inflation:** Increase in production, tax reforms and other reforms helped in controlling the inflation. The annual rate of inflation reduced from the peak level of 17 per cent in 1991 to around 7,6 per cent in 2012-13.

5. **Increase in role of private Sector:** Since 1991, the private sector is playing a dominant role. Abolition of licensing system and removal of restrictions on entry of the private sector, in areas earlier reserved for the public sector, have enlarged the area of operation of the private sector.

6. **Performance of the Industrial Sector:** industrial sector has been experiencing a very high growth rate of over 8 percent since 2003-04. It experienced a growth rate of 7.4 percent during the twelfth plan.

4.2 Criticism of Economic Reforms

Critics have raised a series of criticism against the New Economic Reforms, especially in the areas of employment, agriculture, industry, infrastructure development and fiscal management.

Though the GDP growth rate has increased in the reform period, but such growth failed to generate sufficient employment opportunities in the country. We can say it leads to jobless growth. The new economic policy has neglected the agricultural sector as compared to industry, trade and services sector.

Public investment in agriculture sector, especially in infrastructure, which includes irrigation, power, roads market linkages and research and extension has been reduced in the reform period. The removal of fertilizer subsidy increased the cost of production, which adversely affected the small and marginal farmers. The policies of reduction in import duties on agricultural products; removal of minimum support price; lifting of quantitative restrictions on agricultural products. have adversely affected the Indian farmers as they had to face increased international competition. Due to Export-oriented policy strategies in agriculture, the production shifted from food grains to cash crops for the export market. It led to rise in the prices of food grains.

Due to globalisation, there was a greater flow of goods and capital from developed countries and as a result, domestic industries were exposed to imported goods. Cheaper imports replaced the demand for domestic goods and domestic manufacturers started facing competition from imports. This led to the slowing down of the industrial sector, besides this infrastructure facilities, including power supply, have remained inadequate due to lack of investment. All quota restrictions on exports of textiles and clothing have been removed from India. But some developed countries, like USA have not removed their quota restrictions on import of textiles from India.

The disinvestment policy of government was not successful because, the assets of Public Sector Undertakings (PSUs) were under-valued and sold at cheaper rates to the private sector. Moreover, such proceeds from disinvestments were used to compensate shortage of government revenues rather than using it for the development of PSUs and building social infrastructure in the country. Now MNCs have a dominating role in the Indian economy. They are exploiting Indian markets and are selling their products. They are thus making huge profits. Indians sometimes wastefully spend their money on a variety of global brands in the market. The new policy has been encouraging a dangerous trend of consumerism by encouraging the production of luxuries and items of superior consumption. Growth has been concentrated only in some select areas in the services sector, such as telecommunication, information technology, finance, entertainment, travel and hospitality services, real estates and trade, rather than vital sectors, such as agriculture and industry, which provide livelihood to millions of people in the country.

5. Summary

The New Economic Policy 1991 is sometimes called as LPG (Liberalisation, Privatisation and Globalisation). The combination of all these policies has produced some positive as well as negative results on the Indian Economy. It should be noted that it is not a master key to open all locks. It has not been able to solve the problems like poverty, inequality of income, regional imbalance and unemployment.

Since NEP 1991, the trend in India’s Balance of Trade (export & import) and FDI shows a considerable change. India is improving its position in world trade. In the recent past due to access to global markets, high technology and growth and development in service sector , India has become a key player in the international arena.