CLASS – 11

ECONOMICS

Indian Economy Development

CH–3

Liberalisation, Privatisation & Globalisation : An Appraisal

Part – 2

Liberalisation

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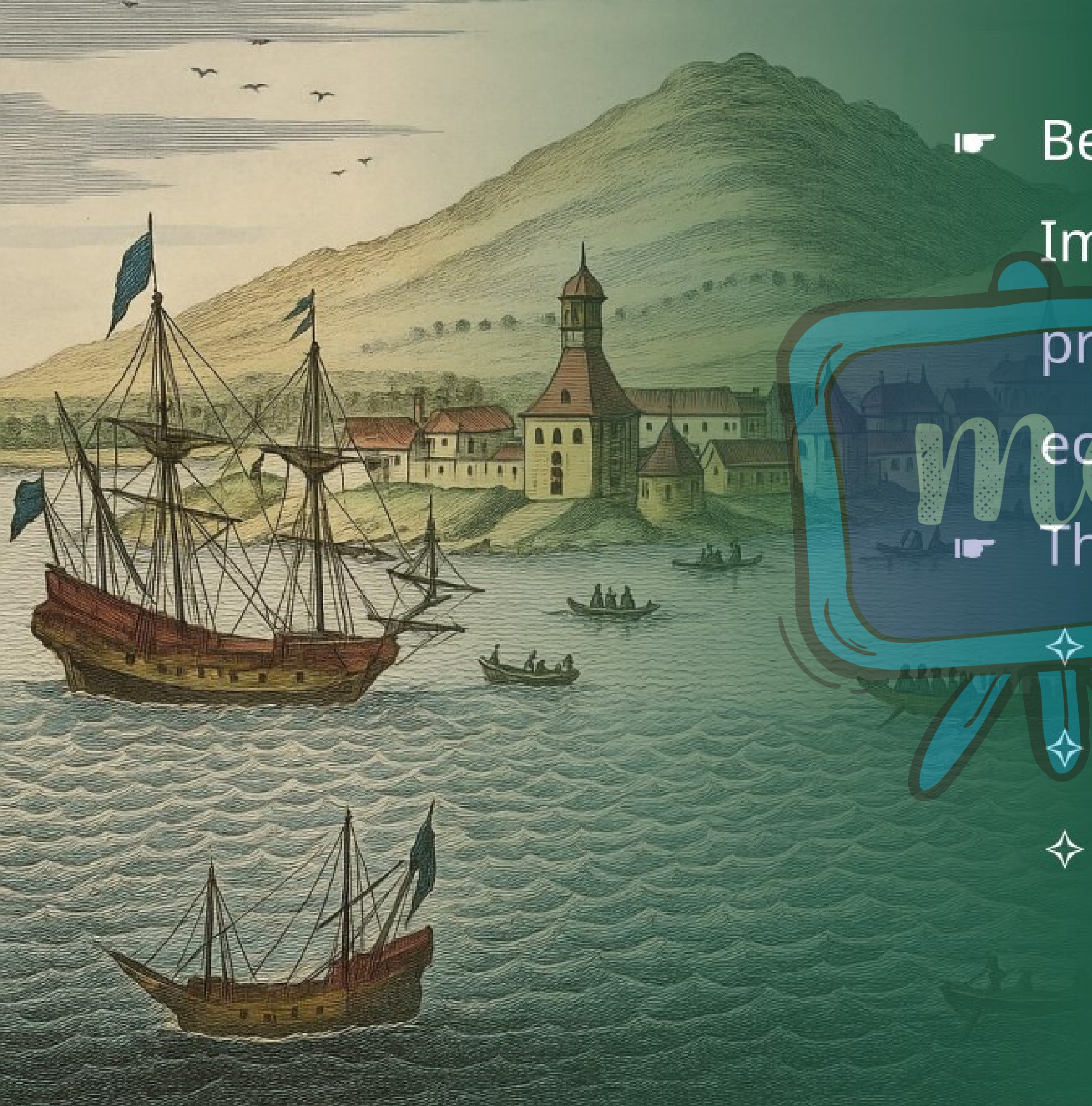
OVERVIEW

1. Economic Reforms & New Economic Policy
2. Liberalisation
3. Privatisation
4. Globalisation
5. Indian Economy During Reforms



- Before 1991, the government had Imposed several types of controls on private enterprises in the domestic economy.
- These Includes –
  - Industrial licensing systems
  - Price control on goods
  - Import license

- Foreign exchange control
- Restrictions on Investment by big business, houses, etc.

- It was experienced by the government that several shortcomings had emerged in the economy on account of these controls like corruption, undue delays, and inefficiency.

LIBERALISATION

Liberalisation of the economy means freedom of the producing units from direct controls imposed by the government.

PURPOSE OF LIBERALISATION

- To unlock the economic potential of the country by encouraging private sector and MNCs to invest & expand.
- To introduce more competition into the economy.
- To create incentives for increasing the efficiency of operations.

REFORMS UNDER LIBERALISATION

- Deregulation of Industrial Sector
- Financial Sector Reforms
- Tax Reforms
- Foreign Exchange Reforms
- Trade and Investment Policy Reforms

1 USD = 80 INR
1 USD = 85 INR

Dep.
Devalue.

1. Industrial Sector Reforms

1. Abolition of Industrial Licensing
2. Contraction of Public Sector
3. De-reservation of Production Areas
4. Expansion of Production Capacity
5. Freedom to Import Capital Goods

- Industrial licensing was abolished for almost all products except –
  - Alcohol
  - Cigarettes
  - Hazardous chemicals
  - Industrial explosives
  - Electronics
  - Aerospace
  - Drugs and pharmaceuticals.

- The only industries which are now reserved for the public sector are a part of atomic energy and railway transport.

Government

- Many goods produced by small-scale industries have now been dereserved.
- In most industries, the market has been allowed to determine the prices.

2. Financial Sector Reforms

Change in role of RBI

Facilitator

Origin of Private Bank

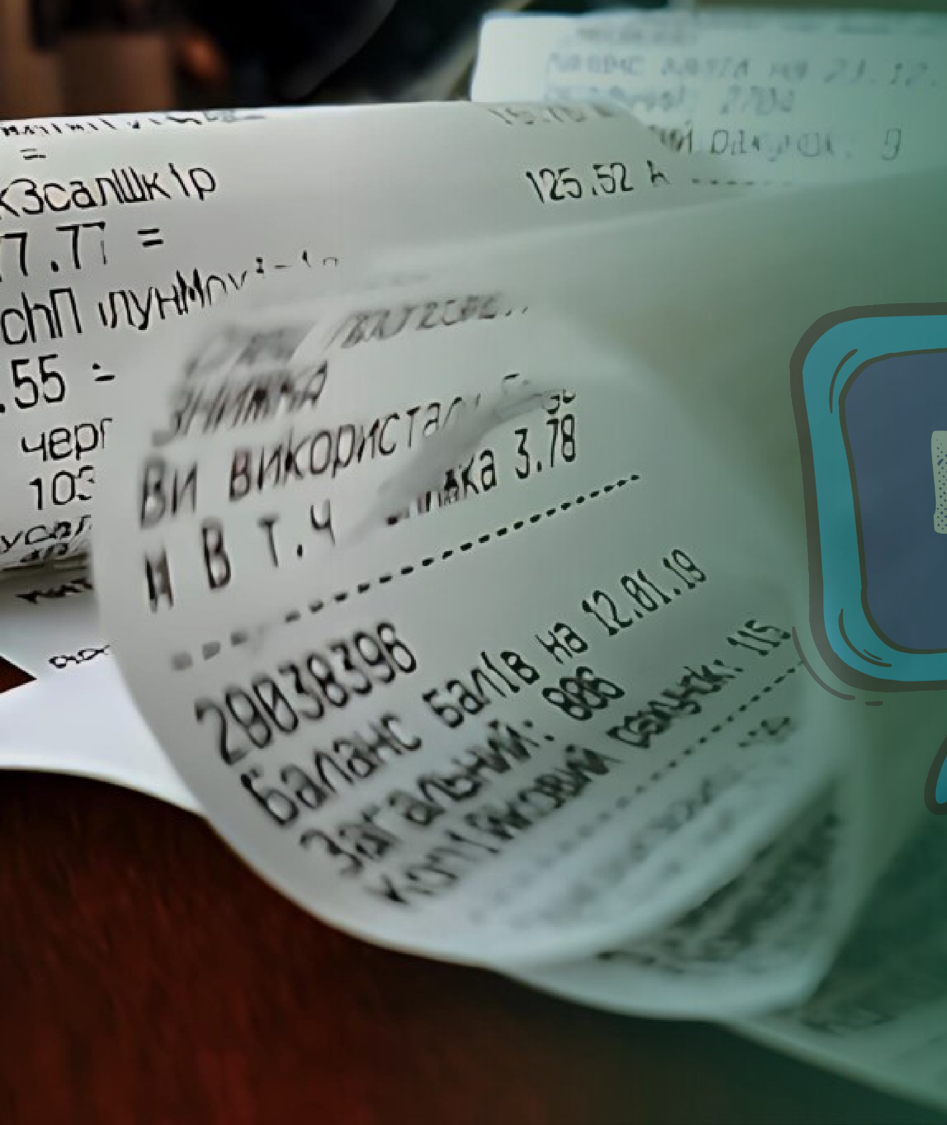
Increase in Limit of Foreign Investment

Ease in Expansion Process

- Reduce the role of RBI from regulator to facilitator of financial sector.
- Establishment of private sector banks, Indian as well as foreign.
- Foreign investment limit in banks was raised to around 74 per cent.
- At certain conditions, freedom was given to set up new branches without the approval of the RBI.

- Though banks have been given permission to generate resources from India and abroad, certain managerial aspects have been retained with the RBI to safeguard the interests of the account-holders and the nation.

- Foreign Institutional Investors (FII), such as merchant bankers, mutual funds and pension funds, are now allowed to invest in Indian financial markets.



3. Tax Reforms

- Fiscal reforms relate to the revenue & expenditure of the government.
- Tax reforms are the principal component of fiscal reforms.

✧ Broadly, Taxes are classified as :

(i) Direct Taxes :

- These are those taxes, the burden of which cannot be shifted to others.
- **Examples :** Income tax, Wealth tax.
- One who pays such a tax himself bears the burden of it.

(ii) Indirect Taxes :

- (levied on goods and services) are those taxes, the burden of which can be shifted onto others.
- **Examples :** GST (Goods and Services Tax,) custom duty.

- Before liberalisation, the tax structure in the country has been highly complex.
- Fearing a heavy burden of taxation, people would often evade taxes.
- Now tax structure has been simplified and moderated.
- This has raised tax revenue for the government.

4. Foreign Exchange Reforms

- 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.

- It also set the tone to free the determination of rupee value in the foreign exchange market from government control.
- Markets determine exchange rates based on the demand and supply of foreign exchange.

5. Trade and Investment Policy Reforms

- Import quotas have been abolished.
- Import licensing (except in the case of goods that are not environment-friendly and hazardous) has been abolished.

- Reduction of import duty to enhance competitiveness in the domestic market.
- Export duty has been withdrawn to enhance the competitiveness of Indian goods in the international market.

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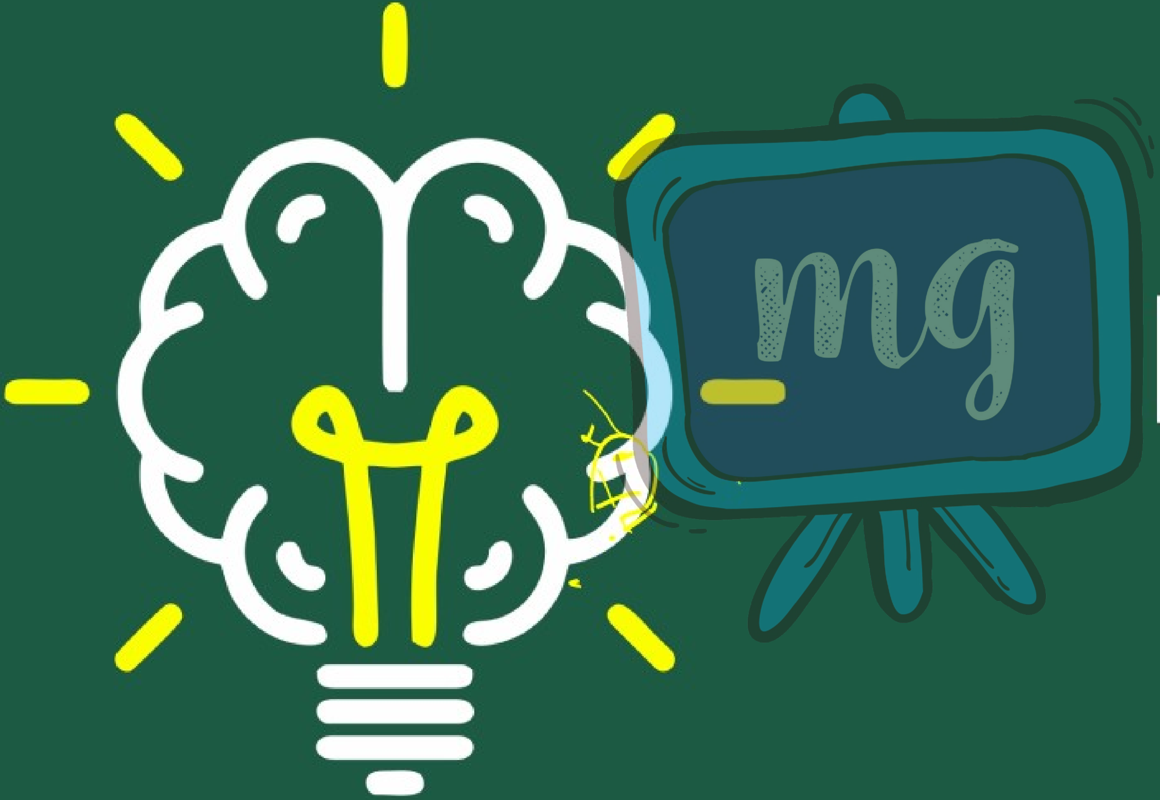
LEARNING OUTCOME



Liberalisation

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ASSESSMENT

1 Which reform was established under Liberalization?

A Industrial Sector Reforms

B Financial Sector Reforms

C Trade and Investment Policy Reforms

D All of the above

ASSESSMENT

2 For which product was industrial lincensing abolished under libralisation?

- A ~~Atomic energy~~
- B Railways
- C Food and eatables
- D Alcohol and Cigarettes

ASSESSMENT

3 | Which of the following is not a trade reform?

A Reduction of import duty

B Abolition of import quota

C Import licensing for dangerous goods was abolished

D Export duty was withdrawn