Chapter 3

Liberalization, Privatization and Globalization: An Appraisal

Q. 1 Why were reforms introduced in India?

Answer:

The economic reforms were introduced in 1991 to overcome the economic crisis related to the external debt and many other factors like -

1. The national income was growing at a very slow rate of 0.8%

2. India was highly indebted and the government was unable to make repayment of loans taken from abroad.

3. Imports were more than exports, there was balance of payment deficit and the foreign exchange reserves collapsed.

4. Inflation level was quite high and so even the prices of essential goods were increased.

5. India was indebted to IMF and World Bank up to the extent of 7 billion dollars.

Q. 2 Why is it necessary to become a member of WTO?

Answer:

It is important for every country to become a member of WTO because of the following reasons –

1. WTO provides equal opportunity to its member countries to trade in the international market.

2. The member countries of WTO have wider scope to utilize the resources of world and enjoy greater market accessibility.

3. WTO promotes healthy and fair competition among different producers of different countries by removal of tariff and non-tariff barriers.

4. The member countries having similar economic conditions can raise voice to protect their common interest.

Q. 3 Why did RBI have to change its role from controller to facilitator of financial sector in India?

Answer:

After economic liberalization and financial sector reforms the role of RBI changed from controller to facilitator. The financial sectors were free to take decisions on various matters without consulting RBI.

The financial sector reforms led to the establishment of private banks and the banks were given freedom to set up new branches. Banks are free to generate resources from India and abroad through capital market.

Q. 4 How is RBI controlling the commercial banks?

Answer:

RBI controls the commercial banks by various instruments like

- Statutory Liquidity Ratio
- Cash Reserve Ratio
- Bank Rate
- Prime Lending Rate
- Repo Rate
- Reverse Repo Rate
- Rate of Interest on Savings and Loans

It is mandatory for all commercial banks to follow the ratios and rates fixed by RBI.

Q. 5What do you understand by devaluation of rupee?

Answer:

Devaluation of rupee means the fall in the value of Rupee in terms of foreign currency or the increase in the value of foreign currency in terms of Indian rupee. This implies that the value of rupee has fallen and the value of foreign currency has risen.

Q. 6 Distinguish between the following

(i) Strategic and Minority sale

(ii) Bilateral and Multi-lateral trade

(iii) Tariff and Non-tariff barriers.

Answer:

(i) Strategic and Minority sale

Strategic sale	Minority sale
1. Strategic sale means sale of minimum 51% stake of public sector unit to private sector. 2. The control and management are transferred to private sector 3. It is done through competitive bidding	1. Minority sale means sale of less than 49% stake of public sector unit to private sector 2. The control and management remain with public sector unit 3. It is done by public office

(ii) Bilateral and Multi-lateral trade

Bilateral trade	Multi – lateral trade
1. It is trade agreement between two countries 2. Negotiations are done between countries separately on one to one basis 3.It encourages economic co – operation between two countries	1. It encourages economic cooperation between two countries 2. Negotiations are done with many countries together 3. It encourages globalization and integrates many countries of the world

(iii) Tariff and Non-tariff barriers.

Tariff barriers	Non – tariff barriers
1. These are that import duties and taxes imposed on imports made by a country in order to products the domestic industries. 2. Tariff barriers are allowed by WTO 3. Tariff barriers are explicit	1. These are the import restrictions other than tax with an aim to protect the domestic industries. 2. Non – tariff barriers are not allowed by WTO 3. Tariff barriers are not explicit

Q. 7 Why are tariffs imposed?

Answer:

Tariffs are imposed to make imports expensive and to protect domestically produced good by making imports costly.

Q. 8 What is the meaning of quantitative restrictions?

Answer:

Quantitative restrictions are the non-tariff barriers that are imposed by a country on the quantity or value of goods that can be imported and exported.

Q. 9 Those public sectors undertakings which are making profits should be privatized. Do you agree with this view? Why?

Answer:

The profit making public sector undertakings should not be privatized because they are the revenue generator for the government. However, the loss making public sector undertaking shall be privatized.

Q. 10 Do you think outsourcing is good for India? Why are developed countries opposing it?

Answer:

Outsourcing is a good concept for the developing countries like India because it benefits us and our economy in the following manner –

- It helps in generating employment opportunities
- It helps in exchange of Technical Know-how from developed countries
- It increases the inflow of investment by improving the international credit worthiness
- It helps in development and formation of human capital by proper training and development programs.
- It helps in modernization of economy and helps the government in developing a better infrastructural structure.

Outsourcing is opposed by developing countries because it leads to outflow of investments and funds from developed countries to developing countries and as the labour is cheaper in developing countries so more of the work flows from developed to developing countries which results in unemployment in the developed countries.

Q. 11 India has certain advantages which makes it a Favourite outsourcing destination. What are these advantages?

Answer:

India has become Favourite outsourcing destinations because of the following reasons -

1. Availability of cheap labour - The wage rates in India are comparatively lower than those in developed countries.

2. Skills - Indians have good technical and communication skills and they are open to International languages.

3. Political environment - The political environment of India is stable and favorable for MNCs.

4. Cheaper resources - The resources other than labour are also available in India at cheaper rates so as to ensure the proper and smooth functioning of MNCs

Q. 12 Do you think the Navaratna policy of the government helps in improving the performance of public sector undertakings in India? How?

Answer:

In the year 1996, the government introduced Navaratna Policy for profit making Public Sector Undertakings and 9 PSUs were declared as Navaratna. These public-sector units were given managerial and operational autonomy in taking various decisions.

This has improved their performance and some of them have become giant Global players.

Q. 13 What are the major factors responsible for the high growth of the service sector?

Answer:

The major factors responsible for growth in service sector are –

- The reforms introduced in 1991 removed various restrictions on movement of international finance and opened doors for liberalization, globalization and privatization which led to huge inflow of foreign capital and foreign direct investment in India and opened doors for outsourcing industries. This increased the growth of service sector.
- Revolution in IT industry has also played a major role in the growth of service sector.
- Indian economy is undergoing structural transformation which means it is shifting from primary to territory sector

Q. 14 Agriculture sector appears to be adversely affected by the reform process. Why?

Answer:

The Economic reforms of 1991 have not been able to benefit the agricultural sector very much, the reasons being -

1. The investment by government in the infrastructure development of Agricultural sector has been reduced in the Reform period.

2. Removal of subsidies has increased the cost of production and has made farming more expensive which has adversely affected the poor and marginal farmers.

3. The restrictions imposed by WTO have not been favorable for the agricultural sector.

Q. 15 Why has the industrial sector performed poorly in the reform period?

Answer:

The reasons behind poor performance of industrial sector during the Reform period are -

1. The policies of liberalization have made imports cheaper and the foreign goods replaced the demand for domestic goods.

2. Due to the lack of infrastructure development the domestic firms were not able to complete the MNCs in terms of cost of production and quality of goods.

3. Due to high non-tariff barriers we do not have access to global market like other developed countries.

4. The domestic industries were not able to compete with the MNCs.

Q. 16 Discuss economic reforms in India in the light of social justice and welfare.

Answer:

The effect of economic reforms is -

1. During 10th five-year plan India witnessed the growth of GDP from 6.1% to 8%.

2. There was growth in small scale industries.

3. India became pioneer producer in the field of engineering goods, telecommunications, readymade clothes, etc.

4. Inflation was under control

5. The agricultural sector was adversely affected by the economic reforms

6. The inequalities among people and states widened

7. Resulted in growth in service sector and the Indian economy went into structural transformation and its economic dependence shifted from primary sector to service sector.