UPSC

NCERT Summary

Liberalization- 1

Rules and laws which were aimed at regulating the economic activities became major hindrances in growth and development. Liberalization was introduced to put an end to these restrictions and open up various sectors of the economy. Though a few liberalization measures were introduced in 1980s in areas of industrial licensing, export-import policy, technology up gradation, fiscal policy and foreign investment, reform policies initiated in 1991 were more comprehensive. Let us study some important areas such as the industrial sector, financial sector, tax reforms, foreign exchange markets and trade and investment sectors which received greater attention in and after 1991.

Deregulation of industrial Sector: In India, regulatory mechanisms were enforced in various ways
(i) industrial licensing under which every entrepreneur had to get permission from government officials to start a firm, close a firm or to decide the amount of goods that could be produced
(ii) private sector was not allowed in many industries
(iii) some goods could be produced only in small scale industries and
(iv) controls on price fixation and distribution of selected industrial products.
The reform policies introduced in and after 1991 removed many of these restrictions. Industrial licensing was abolished for almost all but product categories - alcohol, cigarettes, hazardous chemicals industrial explosives, electronics, aerospace and drugs and pharmaceuticals. The only industries which are now reserved for the public sector are defence equipments, atomic energy generation and railway transport. Many goods produced by small scale industries have now been dereserved. In many industries, the market has been allowed to determine the prices. Financial Sector Reforms: Financial sector includes financial institutions such as commercial banks, investment banks, stock exchange operations and foreign exchange market.
The financial sector in India is controlled by the Reserve Bank of India (RBI). You may be aware that all the banks and other financial institutions in India are controlled through various norms and regulations of the RBI. The RBI decides the amount of money that the banks can keep with themselves, fixes interest rates, nature of lending to various sectors etc. One of the major aims of financial sector reforms is to reduce the role of RBI from regulator to facilitator of financial sector.

This means that the financial sector may be allowed to take decisions on many matters without consulting the RBI.

Navaratnas and public Enterprise Policies

In 1996, in order to improve efficiency, infuse professionalism and enable them to compete more effectively in the liberalized global environment, the government chose nine PSUs and declared them as navaratnas. They were given greater managerial and operational autonomy, in taking various decisions to run the company efficiently and thus increase their profits. Greater operational, financial and managerial autonomy had also been granted to 97 other profit-making enterprises referred to as mini ratnas.

The first set of navaratna companies included Indian Oil Corporation Ltd (IOC), Bharat Petroleum Corporation Ltd (BPCL), Hindustan Petroleum Corporation Ltd (HPCL), Oil and Natural Gas Corporation Ltd (ONGC), Steel Authority of India Ltd (SAIL), Indian Petrochemicals Corporation Ltd. (IPCL), Bharat Heavy Electricals Ltd (BHEL), National Thermal Power Corporation (NTPC) and Videsh Sanchar Nigam Ltd (VSNL). Later, two more PSUs-Gas Authority of India Limited (GAIL) and Mahanagar Telephone Nigam Ltd (MTNL)- were also given the same status.

Many of these profitable PSUs were originally formed during the 1950s and 1960s when self-reliance was an important element of public policy. They were set up with the intention of providing infrastructure and direct employment to the public so that quality end-product reaches the masses at a nominal cost and the companies themselves were made accountable to all stakeholders. The granting of navaratna status resulted in better performance of these companies. Scholars state that instead of facilitating navaratnas in their expansion and enabling them to become global players, the government partly privatized them through disinvestment. Of late, the government has decided to retain the navaratnas in the public sector and enable them to expand themselves in the global markets and raise resources by themselves from financial markets.

The reform policies led to the establishment of private sector banks, Indian as well as foreign. Foreign investment limit in banks was raised to around 50 per cent. Those banks which fulfill certain conditions have been given freedom to set up new branches without the approval of the RBI and rationalize their existing branch networks. Though banks have been given permission to generate resources from India and abroad, certain 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.

Tax Reforms: Tax reforms are concerned with the reforms in government's taxation and public expenditure policies which are collectively known as its fiscal policy.

There are two types of taxes: direct and indirect. Direct taxes consist of taxes on incomes of individuals as well as profits of business of enterprises. Since 1991, there has been a continuous reduction in the taxes on individual incomes as it was felt that high rates of income tax were an important reason for tax evasion. It is now widely accepted that moderate rates of income tax encourage savings and voluntary disclosure of income. The rate of corporation tax, which was very high earlier, has been gradually reduced. Efforts have also been made to reform the indirect taxes, taxes levied on commodities, in order to facilitate the establishment of a common national market for goods and commodities. Another component of reforms in this area is simplification. In order to encourage better compliance on the part of taxpayers procedures have been simplified and the rates also substantially lowered.

Foreign Exchange Reforms: The first important reform in the external sector was made in the foreign exchange market. In 1991, as 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. Now, more often than not, markets determine exchange rates based on the demand and supply of foreign exchange.

Trade and Investment Policy Reforms: Liberalization of trade and investment regime was initiated to increase international competitiveness of industrial production and also foreign investment and technology into the economy. The aim was also to promote the efficiency of the local industries and the adoption of modern technologies. In order to protect domestic industries. India was following a regime of quantitative restrictions on imports. This was encouraged through tight control over imports and by keeping the tariffs very high. These policies reduced efficiency and competitiveness which led to slow growth of the manufacturing sector.
The trade policy reforms aimed at (i) dismantling of quantitative restrictions on imports and exports (ii) reduction of tariff rates and (iii) removal of licensing procedures for imports. Import licensing was abolished except in case of hazardous and environmentally sensitive industries. Quantitative restrictions on imports of manufactured consumer goods and agricultural products were also fully removed from April 2001. Export duties have been removed to increase the competitive position of Indian goods in the international markets.

Global Footprint!
Owing to globalization, you might find many Indian companies expanding their wings to many other countries. In 2000, Tata Tea surprised the world by acquiring the UK based Tetley, the inventor of the tea bag, for Rs. 1,870 croer. In the year 2004. Tata steel bought the Singapore based Nat steel for Rs. 1,245 crorer and Tata

Motors completed the buyout of Daewoo's heavy commercial vehicle unit in South Korea for Rs 448 crore. Now VSNL is acquiring Tyco's undersea cable network for Rs. 572 crore,which will control over 60,000 km undersea cable network across three continents. The Tatas also plan to invest Rs. 8,800 croer in fertilizer, steel and power plants in Bangladesh.

PRIVATIZATION

It implies shedding of the ownership or management of a government owned enterprise. Government companies can be converted into private companies in two ways (i) by withdrawal of the government from ownership and management of public sector companies and or (ii) by outright sale of public sector companies. Privatization of the public sector undertaking by selling off part of the equity of PSUs to the public is known as disinvestment. The purpose of the sale, according to the government, was mainly to improve financial discipline and facilitate modernization. It was also envisaged that private capital and managerial capabilities could be effectively utilized to improve the performance of the PSUs. The government envisaged that privatization could provide strong impetus to the inflow of FDI. The government has also made attempts to improve the efficiency of PSUs by giving them autonomy in taking managerial decisions. For instance, some PSUs have been granted special status as navaratnas and mini ratnas.

GLOBALIZATION

Globalization is the outcome of the policies of liberalization and privatization. Although globalization is generally understood to mean integration of the economy of the country with the world economy, it is a complex phenomenon. It is an outcome of the set of various policies that are aimed at transforming the world towards greater interdependence and integration. It involved creation of networks and activities transcending economic, social and geographical boundaries. Globalization attempts to establish links in such a way that the happenings in India can be influenced by events happening miles away. It is turning the world into one whole or creating a borderless world.

Outsourcing: This is one of the important outcomes of the globalization process. In outsourcing, a company hires regular service from external sources, mostly from other countries, which was previously provided internally or from within the country (like legal advice, computer service, advertisement, security- each provided by respective departments of the company). As a form of economic activity, outsourcing has intensified, in recent times, because of the growth of fast modes of communication, particularly the growth of Information Technology (IT). Many of the services such as voice-based business processes (popularly known as BPO or call centres), record keeping, accountancy, banking services, music recording, film editing, book transcription, clinical advice or even teaching are being outsourced by companies in developed countries to India. With the help of modern telecommunication links including the Internet, the text, voice and visual data in respect of these services is digitized and transmitted in real time over continents and national boundaries. Most multinational corporations, and even small companies, are outsourcing their services to India where they can be availed at a cheaper cost with reasonable degree of skill and accuracy. The low wage rates and availability of skilled manpower in India have made it a destination for global outsourcing in the post-reform period.

World Trade Organization (WTO): The WTO was founded in 1995 as the successor organization to the General Agreement on Trade and Tariff GATT was established in 1948 with 23 countries as the global trade organization to administer all multilateral trade agreements by providing equal opportunities to all countries in the international market for trading purposes. WTO is expected to establish a rule based trading regime in which nations cannot place arbitrary restrictions on trade. In addition, it purposes is also to enlarge production and trade of services, to ensure optimum utilization of world resources and to protect the environment.
The WTO agreements cover trade in goods as well as services to facilitate international trade (bilateral and multilateral) through removal of tariff as well as non-tariff barriers and providing greater market access to all member countries. As an important member of WTO, India has been in the forefront of framing fair global rules, regulations and safeguards and advocating the interests of the developing world. India has kept its commitments towards liberalization of trade, made in the WTO, by removing quantitative restrictions on imports and reducing tariff rates.

Gwoth of GDP and Major Sectors (in %)

Sector	1980-91	1992-2001	2002-07 (Tenth Plan Projected)
Agriculture	3.6	3.3	4.0
Industry	7.1	6.5	9.5
Services	6.7	8.2	9.1
GDP	5.6	6.4	8.0

Some scholars question the usefulness of India being a member of the WTO, as a major volume of international trade occurs among the developed nations. They also say that while developed countries file complaints over agricultural subsidies given in their countries, developing countries feel cheated as they are forced to open up their markets for developed countries but are not allowed access to the markets of developed countries. Providing minimum basic needs to the people and reduction of poverty have been the major aims of independent India. The pattern of development that the successive fiveyear plans envisaged laid emphasis on the upliftment of the poorest of the poor (Antyodaya), integrating the poor into the mainstream and achieving a minimum standard of living for all.
While addressing the Constituent Assembly in 1947, Jawaharlal Nehru had said, "This achievement (Independence) is but a step, an opening of opportunity, to the great triumphs and achievements that await us... the ending of poverty and ignorance and disease and inequality of opportunity." Poverty is not only a challenge for India, as more than one fifth of the world's poor live in India alone; but also for the world, where more than 260 million people are not able to meet their basic needs. Poverty has many faces, which have been changing from place to place and across time, and has been described in many ways.
Most often, poverty is a situation that people want to escape. So poverty is a call to action- for the poor and the wealthy alike-a call to change the world so that many more may have enough to eat, adequate shelter, access to education and health, protection from violence, and a voice in what happens in their communities.

WHO ARE THE POOR?

You would have noticed that in all localities and neighbourhoods, both in rural and urban areas, there are some of us who are poor and some who are rich. Their lives are examples of the two extremes. There are also people who belong to the many stages in between. Push cart vendors, street cobblers, women who string flowers, rag pickers, vendors and beggars are some examples of poor and vulnerable groups in urban areas.
They possess few assets. They reside in kutcha hutments with wall made of baked mud and roofs made of grass, thatch, bamboo and wood. The poorest of them do not even have such dwellings. In rural areas many of them are landless. Even if some of them possess land, it is only dry or waste land. Many do not get to have even two meals a day. Starvation and hunger are the key features of the poorest households. The poor lack basic literacy and skills and hence have very limited economic opportunities. Poor people also face unstable employment. Malnutrition is alarmingly high among the poor. Ill health, disability or serious illness makes them physically weak. They borrow from money lenders who charge high rates of interest that lead them into chronic indebtedness. The poor are hghly vulnerable. They are not able to negotiate their legal wages from employers and are exploited. Most poor

households have no access to electricity. Their primary cooking fuel is firewood and cow dung cake. A large section of poor people do not even have access to safe drinking water. There is evidence of extreme gender inequality in the participation of gainful employment, education and in decision-making within the family. Poor women receive less care on their way to motherhood. Their children are less likely to survive or be born healthy.

What is Poverty?

Two scholars, Shaheen Rafi Khan and Damian Killen, put the conditions of the poor in a nutshell: Poverty is hunger. Poverty is being sick and not being able to see a doctor. Poverty is not being able to go to school and not knowing how to read. Poverty is not having a job. Poverty is fear for the future, having food once in a day. Poverty is losing a child to illness, brought about by unclear water. Poverty is powerlessness, lack of represen-tation and freedom.

Scholars identify the poor on the basis of their occupation and ownership of assets. They state that the rural poor work mainly as landless agricultural labourers, cultivators with very small landholdings, landless labourers who are engaged in a variety of non-agricultural jobs and tenant cultivators with small land holdings. The urban poor are largely the overflow of the rural poor who had migrated to urban areas in search of alternative employment and livelihood, labourers who do a variety of casual jobs and the self-employed who sell a variety of things on roadsides are engaged in various activities.