

9. ECONOMIC POLICY OF INDIA SINCE - 1991

Q:1 Explain Main Features of Economic Policy of 1991? (4m)

(A) Introduction :- During 1991, India economy was experienced many economic problems like -

- Shortage of Foreign Currency
- Excess Government Expenditure
- Higher subsidies and Interest on Loans
- Higher Defence Expenditure etc.

To overcome these problems, Government of India adopted a New Economic Policy (NEP) in 1991.

(B) Features of the NEP-1991 :-

1. Delicensing :- "Delicensing means abolishing of Government License required to start any business activity". As per the Department of Industrial Policy and Promotion, Government of India, only the following four industries require Compulsory Licensing :-

- i) Electronic Aerospace and Defence equipment
- ii) Industrial Explosive
- iii) Dangerous Chemicals, Drugs and pharmaceuticals (medicines)
- iv) Cigarettes

2. Abolition of Monopolies and Restrictive Trade

Practices (MRTP) Act :- One of the reason for slow Industrial growth was MRTP Act. It was compulsory for large

2.

Scale industries to take permission from central government for expansion, growth or merges etc.
Abolition of MRTP Act is useful to bring rapid industrial growth.

3. Encouragement to Small Sector :- Government has increased investment limits in small sector from one crore to 5 crores. It will help to increase output, employment income and export level of country.

4. Encourage Foreign Investment :- NEP-1991, allowed Foreign Direct Investment (FDI) in High Priority Industries. It will provide more investment and support of New Technology.
Initially FDI was allowed upto 51% of Total investment in selected industries but after some time it was 100% for specific industries.

5. Reducing Role of Public Sector :- Main Objectives

of NEP-1991 were -

- i) Ending state monopoly
 - ii) To improve efficiency of public sector.
 - iii) To encourage privatisation.
 - iv) To provide capital support to sick public sector firms.
- (e.g) To encourage private sector, government reduced number of industries in public sector from 17 to 8.

In 2014 - Only two industries reserved for public sector -

- i) Railways
- ii) Atomic Energy.

3.
6. Trade Liberalisation :- NEP-1991, abolished requirement of Import Licensing. With the help of this Policy, it will easy to import Capital goods, raw-materials, intermediate goods etc.

The Government has also set up —

- i) Special Economic Zones (SEZ) to Promote Exports.
- ii) Agro Export Zones (AEZ) to Promote Agricultural Exports.

7. Reforms in Insurance Sector :- Insurance Sector was a monopoly of the government. The Govt. Passed Insurance Regulatory and Development Authority (IRDA) Act-1999 to bring reforms in this Sector. The IRDA has given License to many private Companies to enter in Insurance Sector.

8. Reforms in Financial Sector :- Before 1991, only Public Sector banks and Co-operative banks were allowed to do banking business in Financial Sector. But NEP-1991 has allowed the entry of many Private banks and Foreign banks.

9) Components of NEP-1991 :-

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graph TD; A[Components of NEP-1991] --> B[1. Liberalization]; A --> C[2. Privatization]; A --> D[3. Globalization];
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1. Liberalization
  2. Privatization
  3. Globalization

Q:2 What is Globalization. Explain Various measures taken by Government for Globalisation? (8m)

**(A) Globalization :-** Globalisation means the ~~also~~ creation of global economy where goods and services, capital, labour and technology can be freely flow from one country to other.

**(B) Meaning :-** "Globalisation means integrating the economy of a country with the world economy".

**(C) Measures taken for Globalisation :-**

**1. Removal of Quantitative restrictions :-**

Government has removed various quantitative restrictions on import and exports.

Example - i) Tariff rates have been reduced

ii) Import duty on industrial goods have been reduced.

**2. Encourage Foreign Capital :-** After 1991, the government has opened the economy to foreign investments. It allowed foreign direct investment in high priority industries where more investment and technology is required. Thus Indian economy has become a part of global economy.

**3. Foreign Collaboration :-** NEP-1991, allowed Indian companies to enter into foreign collaboration (merger)

Example :- Maruti-Suzuki, Hero-Honda, Tata-Corus deals of Iron and steel in South Africa.

4. Convertibility of Rupee :- Exchange Rate of Rupee has been made Flexible. Now Rupee is made Fully convertible to all current account transactions.

5. Long Term Trade Policy :- Government made Various Changes in Foreign Trade Policy. It will help to maintain healthy relations with Foreign countries.

Main Features of Foreign Trade Policy are -

- i) Liberalised Policy.
- ii) Foreign Collaborations.
- iii) Removal of Restrictions etc.

6) To Encourage Exports :- Government took many efforts to Promote Exports.

Example - i) EXIM Policy (Export-Import Policy)

ii) Special Economic Zones (SEZ) to Promote Exports.

Q:3 What is Liberalisation. Explain measures taken for Liberalisation?

(A) Liberalisation :- According to Adam Smith - Economic

Liberalisation is the best economic policy to Promote economic growth and well being of the People.

Liberalisation means economic freedom.

(B) Meaning :- "Liberalisation means Producers, Consumers and Owners of Factors of Production are Free to take decisions to Promote their self-interest".

## © Measures taken for Liberalisation:-

1. Flexibility of Interest Rate :- Due to Liberalisation, Commercial banks have the Freedom to determine rate of Interest depending upon market forces like - Demand force and supply force.
2. Abolition of MRTP Act :- According to MRTP Act-1969, Large Scale Industries having assets ₹100 Crores or more were known as MRTP firms and they require approval from Central Government for merger, Expansion of business etc. But after-1991, these firms have the freedom to take investment decisions.
3. Freedom for Expansion of Industries :- After Liberalisation, all the industries are free to increase their Production Capacity and reduce the Cost of Production on the basis of market requirements.
4. Reforms in FERA :- To promote Foreign Trade, Government bring about flexibility in the Laws of Foreign Exchange. Foreign Exchange Regulation Act - FERA was replaced by Foreign Exchange Management Act - FEMA.
5. Investment in Infrastructure :- After 1991, Infrastructure was opened to domestic and foreign investors. They could invest more in Railway, Highways, Power plants etc.
6. SEBI :- Securities Exchange Board of India - **SEBI**, was set up on 12th April-1992. It was established to protect the interest of investors in securities. It will also help to develop and regulate Securities Market.

## 7. Encouragement to foreign Technology:- Liberalisation

has allowed the use of foreign technology in High Priority industries. It will help to reduce cost of production and improve quality. It will also help our industries to become more competitive at global level.

Q.4 Define Privatisation. Explain Measures taken for Privatisation?

(A) Privatisation:- Privatisation is a process which reduce involvement of public sector and increase working of private sector in economic activities

(B) Meaning:- "Privatisation means transfer of ownership from public to private sector."

### (C) Measures taken for Privatisation:-

1. Disinvestment - "Disinvestment means act of selling shares of sick public sector units to the private sector."

Example- Disinvestment of Maruti, ITDC Hotels, IPCL, VSNL etc.

**ITDC** - India Tourism Development Corporation

**IPCL** - Indian Petrochemicals Corporation Ltd.

**VSNL** - Videsh Sanchar Nigam Limited

2) Dereservation Policy:- The Industrial Policy of 1956 reserved 17 industries for public sector. But NEP-1991, reduced reserved industries to 8. At present only 2 industries are reserved - i) Railways ii) Atomic Energy.

3) BIFR - Board of Industrial and Financial Reconstruction:- NEP-1991, has Set up BIFR to take decisions regarding Sick Public Sector Units.

4) NRB - National Renewal Board:- When Loss making Public Sector Units are closed, the workers have to face the Problem of Unemployment and Poverty. To solve this Problem government has Set up NRB.

5. Navratana Status:- During 1997-98, Nine Public Sector Units were given status of Navratana. These Navratanas were given Full Financial and managerial autonomy. These Navratnas are —

- 1- IOC : Indian Oil Corporation
- 2- ONGC : Oil and Natural Gas Corporation.
- 3- HPCL : Hindustan Petroleum Corporation Ltd.
- 4- BPCL : Bharat Petroleum Corporation Ltd.
- 5- IPCL : Indian Petrochemical Corporation Ltd.
- 6- VSNL : Videsh Sanchar Nigam Ltd.
- 7- BHEL : Bharat Heavy Electricals Ltd.
- 8- SAIL : Steel Authority of India Ltd.
- 9- NTPC : National Thermal Power Corporations.

At Present Public Sector Units (PSUs) are divided

- into —
- i) Miniratna Companies
  - ii) Maharatna Companies



Q:5 Explain Evaluation Of the Economic Policy of 1991?

Ans Economic Policy of 1991

I Major Achievements

II Major Failures

I Major Achievements

1. Revolution in IT Sector :- Globalisation has resulted in revolution in IT Sector. It has increased India's GDP level. Indian Software engineers are in high demand in developed countries like - UK, U.S.A, France etc.

2. Improvement in Financial Facilities :-

Due to entry of Private and Foreign banks, financial sector in India become highly Professional and competitive. They provide quick services to their customers.  
(e.g) credit cards, E-Banking etc.

3. Increase in Exports :- After 1991, India's Export was increased continuously. India is not only exporting traditional products but also machinery, chemicals, computers etc. It will help to improve balance of payments (BOP).

4. Improvement in Educational Standards :- Due to Globalisation, many Indian students went abroad for higher education. It helps to improve Educational Standards and quality of Human Life.

5. Diversification of Cropping Pattern :- Before 1991, Indian Farmers were growing only staple food and cash crops.

Due to Globalisation, farmers have changed cropping pattern from traditional products to Non-traditional products.

(e.g) Horticulture, Floriculture, medicinal plants etc.

6) ∴ Solves Problem of Scarcity :- Due to Freedom in import, Scarcity (shortage) of various goods and services was reduced in India. This will help to solve problem of Inflation.

## II Major Failures :-

1. Lack of Self-Sufficiency :- Our country cannot achieve self-sufficiency in food production because farmers were forced to produce only those goods which are demanded in world market and which are profitable.

2. Adverse Effect on Domestic Market :- Due to Globalisation and Liberalisation our domestic markets are Flooded with imported goods. These imported goods are Cheaper than domestic products so they are highly demanded.

Thus there is adverse (negative) effect on domestic market.

3. Affects on Poor Farmers :- The benefits of Globalisation are being enjoyed by rich farmers due to more export. But poor farmers were unable to face competition with rich farmers. They are still facing the problems of Poverty and Indebtedness.

4. Unhealthy Competition :- The Indian businessmen cannot face competition with Multi-national Companies (MNCs). As a result, they are forced to close down or sell their business units.

5. Neglect welfare aspect :- Due to Privatisation, many services like - Health, Education, Communication are provided at higher cost. Hence welfare of the economy was neglected.

6) Unemployment :- Due to Unhealthy Competitions with MNCs, many Indian Companies were forced to close down their units. It result in Unemployment, Poverty and Inequality in income and wealth.

Q:6 Complete the following statements by choosing the correct alternative:-

1. After Independence, India had adopted Mixed Economy  
a) Socialism      b) Capitalism      c) Mixed Economy      d) Communism

2. The New Economic Policy approved Foreign Technology in High Priority Industries.

- a) Cottage Industries      b) Small scale Industries  
c) Micro Enterprise      d) High Priority Industries

3. At Present the number of industries reserved for Public sector has been reduced to 2  
a) 3      b) 5      c) 7      d) 2

Q:7 Find the odd word out :-

1. New Economic Policy - Liberalisation, Privatisation, Demonetization, Globalisation.

Ans:- Demonetization

2. Navratna Status Companies - SPCL, IOC, ONGC, HPCL Ans:- SPCL

3. Industries requiring compulsory Licensing —  
defence equipment, agro-based industries,  
Cigarettes, Industrial explosives.

Ans:- Agro-based industries.

4. Liberalization dealt with the following —  
MRTP, FERA, SEBI, NTPC.

Ans:- NTPC

Q:8 Identify and explain the concepts from the given illustrations

1. Vehicles manufactured by various automobile companies are now available in India.

Ans:- Globalisation Explanation — Q:2 A and B Part

2. Government Equity in some public sector enterprises is sold to the private sector.

Ans:- Disinvestment Explanation — Q - 4 1st Point

3. Foreign investments are encouraged on a large scale in the industrial sector of India.

Ans:- FDI - Foreign Direct Investment. Explanation - Q:2 - 2nd Point

Q:9 Assertion and Reasoning type questions:

1. Assertion (A): Delicensing of industries was an important step taken under Liberalization.  
Reasoning (R): Unwanted controls and restrictions led to economic stagnation prior to 1991.

Options - a) (A) is True but (R) is False.

b) (A) is False but (R) is True.

c) (A) and (R) both are True but (R) is ~~not~~ the correct Explanation of (A)

(d) (A) and (R) both are True but (R) is not the correct explanation of (A)

Ans:- 1-C

2) Assertion (A) : In 1990-91, India faced an acute shortage of Foreign Exchange Reserves.

Reasoning (R) : Import quotas and tariffs led to an increase in the imports.

Options:- a) (A) is True but (R) is false

b) (A) is false but (R) is True

c) (A) and (R) both are True and (R) is correct explanation of (A)

d) (A) and (R) both are True but (R) is not correct explanation of (A)

Ans:- 2-a

3) Assertion (A) : Post Liberalisation, the sale of domestic goods has increased.

Reasoning (R) : The demand for imported goods had increased due to Liberal Policy.

Options - a) (A) is True but (R) is false.

b) (A) is false but (R) is True.

c) (A) and (R) both are True and (R) is the correct explanation of (A)

d) (A) and (R) both are True and (R) is not the correct explanation of (A).

Ans:- 3-d

4) Assertion (A) : Due to Globalisation, a country cannot achieve self-sufficiency in food production.

Reasoning (R) : Globalisation has created a revolution in IT Sector.

Options :- a) (A) is True but (R) is False

b) (A) is False but (R) is True

c) (A) and (R) both are True, ~~but~~ and (R) is the correct explanation of (A)

d) (A) and (R) both are True, but (R) is not the correct explanation of (A).

Ans: 4-d

Q:10 Do you agree or disagree with following statements?  
Give reasons: -

① Liberalisation has Permitted the Use of Foreign Technology.

Ans: - Yes. I do agree with <sup>this</sup> statement.

Reasons:- Q:3 7th Point.

② Government has given Private enterprises Free access to Public sector.

Ans: No. I do not agree with this statement.

Reasons: - 1) Government has given Private enterprises some Selective access to Public sector.

2) The main Objective of NEP-1991, to Free Industrial Sector from the unnecessary government Control and Complex Procedures.

3) Before 1991, 17 industries were reserved for Public Sector. But after 1991, the reserved industries reduced to 8 then to 2.

Example - Railways and Atomic Energy Sector.

4) Though government opened up Public sector to Private Sector, still Key industries are under Public sector only.

5) Main objective of Disinvestment or Privatisation is to increase efficiency in Public sector enterprises.

6) Thus, government has given some selected Public Sector to Private sector but Strategic Industries are still in the control of Public sector only.

③ Government has monopoly in insurance sector

Ans: I disagree with above statement.

Reasons - Refer - Q:1 - 7th Point.

④ The creation of National Renewal Board was done to remove poverty.

Ans: Yes. I do agree with this statement

Reasons - Refer - Q:4 - 4th Point

⑤ Indian Oil Corporation is one of the Public Sector Units among 'Navratnas'.

Ans: Yes. I do agree with this statement

Reasons - Q:4 5th Point.

