ECONOMICS

(Indian Economic Development)

Chapter 3: Liberalisation, Privatisation And Globalisation : An AppraisaL

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LIBERALISATION, PRIVATISATION AND GLOBALISATION : AN APPRAISAL

Factors responsible for economic reform:

- **Fall in foreign exchange reserve:** Due to the process of industrialization the imports of the economy grew much faster than the amount of exports. Increase in imports reduces the foreign exchange reserve of the economy.
- **Failure of Public sector:** One of the most important factors which led to the economic reforms is the low rate of development of public sector undertakings. The low rate of development causes massive poverty and unemployment in the economy.
- **High fiscal deficit:** Fiscal deficit refers to borrowing by the government on account of the excess of its expenditure over revenue during a year. It was estimated to be 5.4% of GDP in 1981-82 and increase to 8.4% of GDP in 1990-91. It represents the poor financial condition of the economy.
- **Deficit in Balance of payment:** Balance of payment refers to the satistical statement of receipt and payment of country with rest of the world in an accounting year Due to slow growth of exports and huge increment in imports the balance of payment of our economy remains in deficit (Foreign payments > Foreign receipts)

In order to eliminate the situation of crises from Indian economy, Prime Minister P.V.Narsimha roa along with the finance minister Dr. Manmohan Singh introduced the new economic policy in 1991.

It includes:

- Liberalization
- Privatization
- Globalization

The set of policies introduced by the government is placed under 2 different groups (popularly known as measures of new economic policy)

- **Stabilization measures:** It refers to short time policies/ measures which aim at correcting the deficit in balance of payment and controlling the inflation
- **Structural reform measures:** It refers to long term measures aims at improving the efficiency of economy and increasing the international competitiveness.

Elements of New Economic Policy:

Liberalization:

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The removal of entry and growth restrictions on private sector enterprises or the removal of trade barriers is known as liberalization.

Before 1991, government imposed many restrictions on private enterprises which restricts them to take risk or to get indulge in a big project.

According to the policy of 1991, the government tries to remove such barriers so that the private sector of the economy shall grow. In order to get liberalized, government introduced.

- Industrial sector reform.
- Financial sector reform.
- Fiscal reform.
- Foreign exchange reform.
- Trade and investment policy reforms.

Industrial sector reforms:

Under industrial sector, government provides liberalization in the following ways:

- **Reducing industrial licensing:** The new economic policy abolished the requirement of licensing except for the following five industries, i.e., liquor, cigarette, defense equipment's, industrial explosives and dangerous chemicals.
- **Decreasing the role of public sector:** The number of industries reserved for public sector isnow reduced for 17 to 3 i.e., defense equipments, atomic energy generations and railways.
- **Making MRTP act (Monopoly restrictive trade practice act,1970) more liberal:** Now big industrialist are no longer required to seek prior government approval for expansion and established of new industries.
- **Freedom to import capital goods:** Indian industrialist will be free to import machinery or raw material for rest of the world. In order to expand and to modernize their industries.

Financial sector reforms:

- **Establishment of private sector bank:** According to this policy private sector will now be able to open up a bank in India as well as in rest of the world. The basic purpose of adoption this policy is to increase competition which ultimately leads to lower rate of interest and good quality of service.
- **Changing the role of Reserve Bank of India:** The role of RBI is now changed from regulator to facilitator of financial sector. It means that the financial sector can take decision on many matters without consulting from RBI.
- **Foreign investment limit:** Foreign investment limit in banks was increased upto 51%, i.e., foreign investment are allowed to invest in Indian financial markets.

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- **Ease of expansion**: After fulfilling certain conditions, banks were given freedom to set up new branches and rationalize existing branches without any approval of RBI.

Fiscal reforms or tax reforms:

It refers to the reforms in government taxes and public expenditure policies. It is the compulsory payment made by the citizen of a country to the government without receiving any direct benefit in return.

Taxes are of 2 types:

- **Direct tax:** They are those taxes that are imposed on property and income of an individual or a company, and are paid directly by them to the government. **Example:** Income tax, Corporate tax, wealth tax etc.
- **Indirect tax:** They are those taxes which affects the income and property of individuals and companies through their consumption expenditure.

They are imposed on goods and services.

Example: GST (Goods and Service tax), Excise duty etc.

Reduction in Direct tax: The rate of direct tax is reduced so that it encourage the citizen to promote saving and voluntary disclosure of income. The government also regulate and reduce the rate of indirect tax, so that a common national market for goods and services can be established. The process of taxation is also simplified so that a common man can easily understand and accept the structure.

Foreign exchange reforms:

It refers to the rate at which the currency of one country is exchanged with the currency of other country. Foreign exchange rate measures the number of units of currency required to exchange with one unit of other currency.

Example: 1$ = 62 rupees

The above rate means that 62 rupees are required to exchange with 1 dollar. The foreign exchange reform was introduced in order to bring stability in import and export and to stabilize the crises of balance of payment.

The reforms are:

- **Devaluation of Rupee:** Devaluation refers to decrease in the value of domestic currency by the government. In order to attract foreign investors and to increase the amount of foreign exchange the government reduces the value of domestic currency.
- **Adopting Flexible exchange rate system:** It refers to a system in which the exchange rate is determined by the forces of demand and supply of different

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currencies in the foreign exchange market. I.e., the currency which is in demand, has higher exchange rate and the currency whose supply is more, is less valuable and hence it is exchanged at a lower rate. The value of currency is allowed to fluctuate freely.

Trade and investment reforms:

Before 1991, heavy tariff and quota system was implemented by the government to protect domestic industries. But this policy results in reduction of efficiency and slow growth of the economy.

So in order to boost up the competition and to foreign investments, government of India implemented trade and investment reforms which are as follows:

- Reduction in Quota (upto maximum possible limit)
- Removal of Export duty
- Reduction in import duty
- Import licensing was abolished (removed)

Except in case of hazardous and environmentally sensitive industries.

Privatization:

The transfer of ownership right from public sector undertaking to private sector undertaking is known as privatization.

- Contraction of public sector According to this policy, the private sector are no longer restricted to entry in any industry (except atomic power, railways and defence).
- Government companies have been sold by the central government to private capitalist which were incurring losses in 1991.
- Privatization of public sector undertaking (PSU) by selling off part of equity to the public this process is known as disinvestment.
- The government has also attempt to improves the efficiency of few PSUs by giving them additional power and freedom to enter joint venture, raise debts etc.

The government has listed 9 public sector undertaking with the name of 'Navratna Companies'.

- "NAVRATNAS" INDIAN OIL
- BHARAT PETROLEUM ONGC
- SAIL
- HINDUSTAN PETROLEUM BHEL
- IPCL
- VIDESH SANCHAR NIGAM LTD. NTPC

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Globalization:

The integration of domestic economy with world economy is known as globalization.
In other words, it may be defined as a process associated with increasing openness, growing economic interdependence and depending economic integration in the world economy.

Policies promoting globalization:

Increase in limit of equity in foreign investment

The equity limit which was 40% was now upgraded to 51% and even higher. The concept of increasing the limit is to welcome foreign investment and increase the flow of foreign exchange.

- **Reduction in tariff:** The amount of tax imposed on import of goods is also reduced upto the maximum possible limit. So that international competition and technological upgradation can be enjoyed.
- **Removal of quantitative restrictions:** The quota system was abolished by the government of india to promote trade (upto the maximum limit) India being the member country of World trade Organization (WTO) since april 2001, totally removed the quantitative restrictions on foreign trade.
- **Partial convertibility of rupee:** It refers to a system where in the currency is allowed to determine its own exchange rate in the international market on the basis of demand and supply (without any direct official intervention) The convertibility of rupee attracts the foreign investors to invest in India.

Outsourcing: This is one of the most important outcomes of globalization. Under this, a company hires regular services from external sources (mostly from other countries) which were previously done internally. The low wage rates, availability of skilled manpower and existence of special economic zones have made it a destination for global outsourcing in the post reform period. The main services which are outsources from India by developing countries are call centres, film editing, music recording, record keeping etc.

Special economic zones (SEZs): It is an economic zone which was established by the government of India for industrial development.

In such zones various facilities were provided by the government:

- Cheap raw materials .
- Infrastructural facilities.
- Five year tax free plan.
- Flexibility in labour laws.

Achievements of New Economic policy 1991:

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Increase in rate of economic growth: The Indian economy was no longer a stagnant economy. The policy of 1991 pulls out the economy from stagnancy to a developing country.

The growth of GDP increases from 5.6% in 1991-91 to 7.6% in 2015-16.

Rise in foreign exchange reserve: Due to relaxation in tariff and increasing the limit of foreign direct investment, the foreign exchange reserve of the economy increases from $3,362 million in 1990 to $25,186 million in 1995.

- Foreign investment also increases from $100 million in 1991 to $150 million in 1995.
- The rate of inflation also decreases from 17% in 1990 to 6.5% in 2001.
- Fiscal deficit of the economy is also reduced from 8.5% to less than 5%.
- The deficit in balance of payment also comes under control.
- Due to the removal of export duty, the exports of India started to increase.

Demerits of New Economic policy 1991:

- Neglected agriculture sector as the new economic policy has special emphasizes on industrial and IT sector.
- Security of job has been decreased because of entry of FDI and multinational companies.
- Small scale and cottage industries has declined because of increase in competition due to globalization.
- The metropolitan cities are developed with lacking behind the development of rural areas.
- The disinvestment policy was also not favourable for domestic investor.
- Leads to unbalanced growth between the sectors.
- Spread of consumerism (the promotion of the interests of consumers).

The new policy has been encouraging a dangerous trend of consumerism by encouraging the production of luxuries and items of superior consumption.

World Trade Organization (WTO)

Before WTO, GATT (General agreement of tariff and trade) was established in 1948 with 23 countries as the global trade organization to admister all international trade agreements by providing equal opportunities to all the countries in international market for trading purposes.

The WTO came into existence on 1st January 1995 as the successor organization to the GATT.

The WTO is body incorporated for the purpose of making the whole world a village

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wherein goods and services can flow without any undue barriers.

The headquarter of WTO is located in Geneva (Switzerland). The WTO has 164 members and 23 observer governments.

The current director-general of WTO is Roberto Azevedo of Brazil (since 1st September 2013).

Role/ Functions of WTO:

- To facilitates international trade.
- To provide financial assistance to the member country in international trade.
- Always tries to remove the tariff barriers between the countries.
- Acts as a watch dog in international trade.
- Acts as a forum for trade negotiations.
- To provide a platform to member countries to decide future strategies related to trade and tariff.
- To administer the rules and processes related to dispute settlement.

Summary:

- New Economic Policy in 1991
- Factors responsible for economic reform
- Elements of New Economic Policy
- Liberalization
- Privatization
- Globalization
- Stabilization measures
- Structural reform measures
- Liberalization
- Industrial sector reform
- Financial sector reform
- Fiscal reform
- Foreign exchange reform
- Trade and investment policy reforms
- Privatization
- Globalization
- Outsourcing
- Achievements of New Economic policy 1991
- Demerits of New Economic policy 1991
- World Trade Organization (WTO)

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- Role/ Functions of WTO

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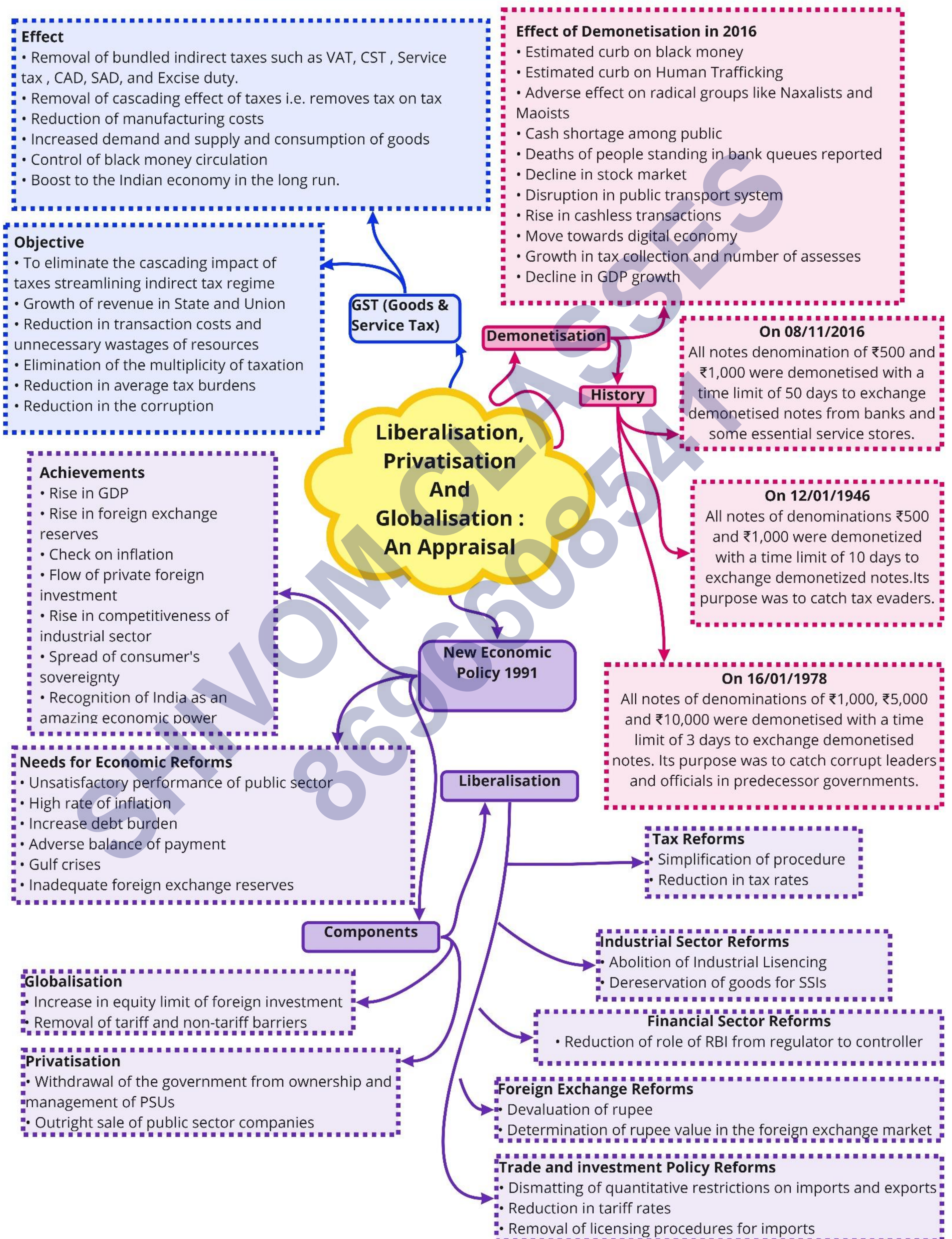

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Important Questions

Multiple Choice questions-

Q1. Mudra bank was set up to meet the credit needs of the …………………

(a) farmers

(b) small enterprises

(c) large enterprises

(d) exporters

Q2. Which of the following replaced mrtp act?

(a) competition act

(b) foreign exchange management act

(c) new companies act

(d) none of these

Q3. To provide refinance facilities to micro-units, an agency named mudra was established by the government. In which year this agency was set up?

(a) 1991

(b) 1999

(c) 2005

(d) 2015

Q4. At present how many industries are exclusively reserved for the public sector in india?

(a) two

(b) three

(c) four

(d) five

Q5. At present the number of industries requiring company licensing is ………………

(a) eight

(b) six

(c) four

(d) five

Q6. For how many industries, licensing is still necessary?

(a) 7

(b) 6

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(c) 9

(d) 10

Q7. How many industries are entirely reserved for the public sector?

(a) 6

(b) 10

(c) 2

(d) 4

Q8. What is the investment limit in small scale industries?

(a) 50 lakh

(b) 1 crore

(c) 25 lakh

(d) 75 crore

Q9. When was vat introduced in most of the states of india?

(a) 1995

(b) 2001

(c) 2005

(d) 2006

Q10. How many countries are the members of wto?

(a) 164

(b) 120

(c) 96

(d) 48

Q11. When was wto established?

(a) 1996

(b) 1998

(c) 2000

(d) 1995

Q12. Where is the headquarters of wto located?

(a) italy

(b) geneva

(c) new york

(d) washington

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Q13. Disinvestment means selling of public investment to a ……………..:

(a) private enterprises

(b) public enterprises

(c) capital market

(d) departmental enterprises

Q14. 100 percent privatization in india has taken place of:

(a) cmc limited

(b) maruti udyog limited

(c) centaur hotel

(d) vsnl

Q15. Cross holding is a method of ………………:

(a) privatisation

(b) globalisation

(c) disinvestment

(d) liberalisation

Very Short:

1. State the meaning of economic reforms.
2. How does increase in fiscal deficit create the requirement of economic reforms?
3. State the name of economic reform which makes free to economy from direct or physical controls imposed by the govt.
4. What is meant by foreign exchange reserve?
5. Why the requirement of fiscal reforms arose under liberalization?
6. What is meant by direct tax?
7. Define indirect tax with the help of example.
8. What is meant by devaluation?
9. State the meaning of privatization.
10. What is meant by globalization?

Short Questions:

1. Explain the occurrence of events which led to introduction of economic reforms in india.
2. Discuss the nature of government's revenue and expenditure prior to economic reforms in india.
3. Write a short note on new economic policy, india.

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4. Explain the significance of liberalisation as an element of new economic reforms.
5. State the salient features of trade policy reforms.
6. How were the Indian industries regulated prior to reforms?
7. Discuss the need for privatisation.What are the ways in which PSUs can be privatised?
8. How can the government improve efficiency of PSUs? Explain giving examples.

Long Questions:

1. What was the need for economic reforms in India? Explain.
2. What were the measures taken under economic reforms to promote privatisation? Explain.
3. Discuss the various strategies which laid the foundation stone for the process of globalisation in India.
4. What are the merits and demerits globalisation?
5. Discuss the benefits of WTO to India.

Case Study Based Question-

1. Read the following hypothetical text and answer the given questions: -
2. Read the following hypothetical text and answer the given questions: -

Assertion Reason Type Question-

1. **In these questions, a statement of assertion followed by a statement of reason is given. Choose the correct answer out of the following choices.**
   a. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
   b. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
   c. Assertion (A) is true but Reason (R) is False
   d. Assertion (A) is False but Reason (R) is true.

Assertion: India has become a favorite destination of outsourcing for most of MNCs.

Reason: India has vast skilled and cheap manpower which enhances the faith of MNCs for investment in India.

2. **In these questions, a statement of assertion followed by a statement of reason is given. Choose the correct answer out of the following choices.**
   a. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
   b. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct

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explanation of Assertion (A).

c. Assertion (A) is true but Reason (R) is False

d. Assertion (A) is False but Reason (R) is true.

Assertion: After the New Economic Policy was announced in1991, domestic competition has increased.

Reason: Industrial sector reforms abolished industrial licensing for all the projects, except for a shortlist of industries.

Answers key

MCQ answers:

1. (B) small enterprises
2. (a) competition act
3. (d) 2015
4. (b) three
5. (d) five
6. (b) 6
7. (c) 2
8. (b) 1 crore
9. (c) 2005
10. (a) 164
11. (d) 1995
12. (b) Geneva
13. (a) Private enterprises
14. (c) Centaur hotel
15. (c) Disinvestment

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Very Short Answers:

1. Ans. Economic reforms refers, those measures which are adopted for the speedy growth of economy, efficiency in production and make

   (a) competitive environment.
2. Ans. Due to increasing fiscal deficit the interest paid by the govt. For the borrowings become 36.4% of the govt. Expenditure. So economic reforms become essential for the govt.
3. Ans. Liberalization.
4. Ans. Stock of foreign currency held with the govt. At given point of time called foreign exchange reserve.

5. Ans. Prior to liberalization, tax structure was highly complicated and evasive. Fearing a heavy burden of taxation, it promote evade the payment of tax, so tax reforms become essential for the govt.
6. Ans. Direct taxes are those taxes, the burden of which cannot be shifted on to other's eg. Income tax.
7. Ans. Indirect taxes are those taxes the burdon of which can be shifted on to other for example sales tax.
8. Ans. Devaluation refers to lowering in the official value of a currency with respect to gold or foreign currency.
9. Ans. Privatization is the general process of involving the private sector in the ownership of operation of a state-owned enterprise.
10. Ans. Globalization may be defined as a process associated with increasing openness growing economic interdependence and deepening economic integration in the world economy.

Short Answers:

1. Answer: The inefficient management of the indian economy led to huge amount of borrowings from national and international financial institutions. As a result, india met with an economic crisis in 1991 due to its failure to repay its borrowings from abroad. Crisis led to rise in prices of essential goods. In order to overcome the crisis, india approached imf and world bank for loan. The imf and world bank announced new economic policy as a condition to support indian economy. Thus, india needed to introduce economic reforms:
   - To maintain sufficient foreign exchange reserves
   - To keep inflation under control
   - To improve economic efficiency
   - To remove rigidities in various areas
   - To increase international competitiveness
2. Answer: The government was not able to generate sufficient revenue from taxation. Lack of revenue was accompanied by problems such as unemployment, poverty and population explosion. The income from psus was also not very high to meet the growing expenditure. On the other hand, the government was spending a large share of its insufficient income on areas which did not provide immediate returns.

   Moreover, the foreign exchange borrowed from other countries and international financial institutions was spent on meeting consumption needs. The government neither made an attempt to reduce such reckless spending nor did it pay sufficient attention to increase its exports to meet growing imports' expenditure.
3. Answer: The imf and world bank announced new economic policy as a condition to support indian economy to overcome crisis. The nep consisted of wide range of economic reforms. The core policies were intended to create a more competitive

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environment in the economy and remove the barriers to entry and growth of firms.

This set of policies can broadly be classified into two groups:

(i) Stabilisation measures: these are short-term measures aimed to correct the weaknesses developed in the balance of payments and to bring inflation under control.

(ii) Structural reform measures: these are long-term measures initiated to improve economic efficiency and increase its international competitiveness by eliminating the rigidities in various segments of the indian economy.

4. Answer: Liberalisation means liberating the trade and industry of an economy from unnecessary restrictions and making the industries more competitive. It implies making the economy free from direct or physical controls imposed by the government. Partial liberalisation was started in India's economy in the decade of eighties.

   However, the New Economic Policy initiated in 1991 is more comprehensive and focused on reducing the controls by introducing liberal changes in both the external as well as domestic economy. Liberalisation process is based on the assumption that market forces could guide the economy in a more effective way than the government control.

5. Answer: The features of trade policy reforms are:

   There was moderation/reduction in import duty to enhance competitiveness in the domestic market.

   Import quotas had been completely abolished.

   Policy of import licensing had almost been scrapped.

   Export duty had been withdrawn to enhance competitiveness of Indian goods in the international market.

6. Answer. The Indian industries were regulated in the following ways prior to reforms:

   (i) Obtaining industrial license from government officials was mandatcy for every entrepreneur to start a firm, close a firm or to decide the quantity of goods that could be produced.

   (ii) Private sector was not allowed in many industrial categories.

   (iii) Production o.f some goods was reserved for only in small scale industries.

   (iv) Government controlled prices determination and distribution of selected industrial products.

7. Answer: Privatisation means the induction of private management and control in the public sector enterprises. With a view to improve the performance of the public sector enterprises, the wave of privatisation has spread all over the world. Need for privatisation was felt mainly because of the inefficiency of the public sector enterprises. Thus, the private sector was given a larger space to operate in the areas reserved exclusively for the public sector.

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Privatisation can be done by two ways:

(i) By withdrawal governmental control from the management and ownership of public sector companies; and

(ii) By outright sale of public sector companies.

8. Answer: The government has made attempts to improve the efficiency of PSUs by giving them autonomy in taking managerial decisions. For example, to improve efficiency, promote professionalism and enable them to compete more effectively in the liberalised global environment, the government chose nine PSUs and declared them as Navaratnas.

   The first set of navaratna companies is as under.

   - BPCL
   - HPCL
   - IOCL (Indian Oil Corporation Ltd.)
   - ONGC
   - SAIL
   - IPCL
   - BHEL
   - NTPC
   - BSNL

Long Answers:

1. Answer: At the time of independence, building a large public sector was almost unavoidable. The capabilities of India's private sector could not be visualised at that time to make very large investments in the areas like infrastructure. However, by late 1980s the situation had completely changed. By that time, India had developed a strong private sector. Therefore, the argument of a large public sector was no longer valid. Need for economic reforms or New Economic Policy was observed mainly due to following reasons:

   (i) Increase in Fiscal Deficit: By 1991, government expenditures began to exceed its revenue by such large margins, which became unsustainable. Fiscal deficit was increasing year after year due to increase in its non-developmental expenditure. Fiscal deficit was 5.4 percent of GDP in 1981 -82, which increased to 8.4 percent of GDP in 1990-91.

   Interest payments on public debt were amounted to I0 percent of total government expenditure in 1980-81 which increased to 36.4 percent in 1991. Thus, government was fast heading for debt trap. India had lost the faith of international institutions like World Bank and IMF. Hence, it was necessary to begin new economic reforms in the country.

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(ii) Adverse Balance of Payments: Balance of payments is an account of all the payments and receipts of one country with other countries. Imports grew at a very high rate unable to match growth in exports. Thus, India faced adverse balance of payment. The country needed foreign exchange to pay for the import of goods and services. The deficit in the balance of payment on current was ₹ 2,214 crore in 1980-81 which rose to ₹ 17,367 crore in 1990-91. Therefore, it was necessary to adopt New Economic Policy to correct the deficit in the Balance of Payment.

(iii) Gulf Crisis: Prices of petroleum increased in 1990-91 due to Iraq War. This Gulf crisis further worsened the balance of payment position of India.

(iv) Rise in Prices: During 1990-91, the level of inflation in the country reached to double digit. As a result, foreign investors had lost their confidence in Indian economy and national capital resources were flying out of the country. Cost of production had taken an upward jump due to high rate of inflation.

(v) Poor Performance of the Public Sector Undertaking: After 1980, most of the public sector undertakings had suffered huge losses. As a result, PSUs have become a liability to the nation. It became inevitable for the government to adopt New Economic Policy.

(vi) Fall in Foreign Exchange Reserves: During 1990-91, foreign exchange reserves declined to a level that was not adequate for imports worth more than two weeks; exports declined and industrial output of the country was crippled.

India had to approach the World Bank and IMF to provide huge loans of $7 billion to bail India out of the crisis. The IMF and World Bank announced New Economic Policy as a condition to support Indian economy to overcome crisis.

2. Answer: The following measures were taken to promote privatisation under New Economic Policy:

(i) Contraction of Public Sector: Earlier for the economic development of India, great importance was given to public sector. However, most of the objectives of economic development have remained unfulfilled.

As a result, policy of contraction of public sector was adopted under economic reforms. Number of industries reserved exclusively for public sector was reduced from 17 to 8 and further to 2, viz. atomic energy and railways transport. All other industries form the part of private sector.

(ii) Disinvestments: In the liberalisation process, the part of the equity of inefficient public sector undertakings was sold to the private sector (public). This is also known as disinvestments. The purpose of disinvestments was mainly to improve financial position and facilitate modernisation.

It was thought that disinvestments could provide strong impetus to the inflow of Foreign Direct Investment. It should be remembered that all of our PSUs are not inefficient. Our Nine PSUs, which are known as 'Navaratnas' of Indian Economy are still playing a leading role in the world market.

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3. Answer: The various strategies which laid the foundation stone for the process of globalisation in India are discussed below:

   (i) Foreign Exchange Reforms: In 1991, rupee had to be devalued against foreign currencies in order to correct the widening deficit in the balance of trade. That was the first and most important reform in the external sector which was made in the foreign exchange market. At present, the value of rupee is determined by market on the basis of demand and supply of exports and imports and by FDI or Fils.

   (ii) Trade and Investment Policy Reforms: Since 1991, the door for foreign investment and technology transfer are opened. Foreign Exchange Regulation Act (FERA), which intended to control the inflow and outflow of foreign exchange, was replaced by a more liberal Foreign Exchange Management Act (FEMA).

   Quantitative restrictions on imports of agricultural products and manufactured consumer goods were also fully removed from April, 2001. Since 1991, tariff rules are reduced and the licensing procedures for imports are removed.

   (iii) Reduction in Tariff: In order to encourage competitiveness, tariff barriers have been withdrawn on most goods traded between India and rest of the world.

4. Answer: Merits of Globalisation

   (i) Globalisation provides exposure to international economies and helps availing advanced technology and inputs from across the globe. This improves quantity as well as quality of production.

   (ii) It helps in improving efficiency of allocation of resources due to more competitive environment.

   (iii) It encourages healthy competition among nations, which helps in improving the quality of goods and services at a competitive price.

   (iv) India's share in the world trade has increased from 0.5 per cent in 1990-91 to 1.1 percent in 2005.

   Demerits of Globalisation

   (i) Many industries (especially small units) may not be able to compete at par with big MNCs. As a result, they might be forced to merge with global enterprises or face a closure.

   (ii) Large scale establishment of MNCs in the developing countries like India might result in monopolies.

   (iii) Globalisation may lead to income inequalities within the country as it will benefit only those who possess latest skills and technology.

5. Answer: The following are the important benefits emerging from the WTO agreement:

   (i) Due to reductions in tariff and non-tariff barriers, there will be development oftrading environment leading to dynamism.

   (ii) Countries like India will be helped in their liberal economic policies due to

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increase in market access opportunities under the WTO.

(iii) It is estimated that world income from trade liberalisation could increase from $ II0 billion to $5 10 billion annually.

(iv) The WTO will strengthen the trade relations among member countries. It will lead to a new trade order.

(v) India will gain in the long run due to low duties on raw-material, components and capital goods.

(vi) The TRIPs are not going to harm India and other developing countries because of providing safeguards.

(vii) India, being a founder member country, has already started to assert itself in the meeting of the WTO council.

(viii) The WTO agreement will emphasise linkages between trade policies, environmental policies and sustainable development.

Case Study Answer-

1. Answer:
    1. a) absolute poverty
    2. Poverty line
    3. Consumption
    4. per capita expenditure
2. Answer:
    1. d) All of the above
    2. Casualization
    3. Gini Coefficient

    d) all the above

Assertion Reason Answer-

1. a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
2. a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

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