ECONOMICS DEVELOPMENT - Part 3

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- MARKET ECONOMY: CAPITALISM:
  Demand and Supply of Goods and Services depends on people who are buying/ using them and depending on the Demands the Supplier will modify his production line to maximize his profits.
- Such system is controlled by Market Forces.
- This is also called capitalism.
- Only those consumer goods will be produced that are in demand. Manufacturer will deploy more labour if labour is cheaper than capital. I

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- In a capitalist society the goods produced are distributed among people not on the basis of what people need but on the basis of Purchasing Power- the ability to buy goods and services
- As at the time of independence the poverty was a big problem, the then leaders rejected the Market Economy for India.

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- SOCIALIST SOCIETY:
  In a socialist society the government decides what goods are to be produced in accordance with the needs of society.

- It is assumed that the government knows what is good for the people of the country and so the desires of individual consumers are not given much importance.

- The government decides how goods are to be produced, how much should be produced and how they should be distributed.

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- In principle, distribution under socialism is supposed to be based on what people need and not on what they can afford to purchase.
- Strictly, a socialist society has no private property since everything is owned by the state.
- In Cuba and China, most of the economic activities are governed by the socialistic principles.
- In this system the poor of the society is taken care of by the government.

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- MIXED ECONOMY:
  Mixed economy is combination of both Capitalism and Socialism. It is the middle path. For growth capitalism and for taking care of poor socialism.

  INDIA FOLLOWED THE MIXED ECONOMY FRAMEWORK BY COMBINING THE ADVANTAGES OF THE CAPITALIST ECONOMIC SYSTEM AND THOSE OF THE SOCIALIST ECONOMIC SYSTEMS.

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- In 1991, India met with an economic crisis relating to its external debt.
- The government was not able to make repayments on its borrowings from abroad.
- Foreign exchange reserves were not sufficient even for a fortnight.
- India approached the World Bank and IMF and received $7 billion as loan to manage the crises.

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- For availing the loan, these international agencies expected:
  - ➢ India to liberate and open up the economy by removing restrictions on the private sector, reduce the role of the government in many areas and remove trade restrictions between India and other countries.
- India agreed to the conditionalities of World Bank and IMF and announced the New Economic Policy.

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- NEW ECONOMIC POLICY:
  The NEP consisted of wide-ranging economic reforms. Objectives: Improving Balance of Payments & Bringing inflation under control

- Structural reform measures were aimed at improving the efficiency of the economy and increasing its international competitiveness by removing the rigidities in various segments of the Indian economy.

- Policies of Liberalisation, Privatization and Globalisation were adopted.

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- LIBERALISATION:
  Rules and laws which were aimed at regulating the economic activities became major hinderances in growth and development.

- Liberalisation was introduced to put an end to these restrictions and open up various sectors of economy.

- INDUSTRIAL SECTOR LIBERALISATION -
  Industrial licensing was abolished for almost all but product categories- alcohol, cigarettes, hazardous chemicals, industrial explosives, electronics, aerospace and drugs and pharmaceuticals.

Liberalization since 1991

- The only industries reserved for the public sector restricted to Defence Equipment, atomic energy generation and Railways

- Many goods produced by small scale industries were de-reserved.

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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 RBI.
- One of the major aims of financial sector reforms is to reduce the role of RBI from regulator to facilitator of financial sector.

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- The reform policies led to the establishment of private sector banks.
- FDI in banks raised to 50%.
- Those banks which fulfilled certain conditions were given freedom to set up new branches.
- Foreign Institutional Investors (FII) such as merchant bankers, mutual funds and pension funds were allowed to invest in the Indian Financial markets.

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- FOREIGN EXCHANGE REFORMS –
  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.
- The control on determination of rupee value in the foreign exchange market was relaxed.
- Now markets were to determine the exchange rates based on the demand and supply of foreign exchange.

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- TRADE AND INVESTMENT POLICY –
  Liberalisation of trade and investment regime was initiated to increase international competitiveness of industrial production and also foreign investments and technology into the economy.
- The aim was also to promote the efficiency of the local industries and the adoption of modern technologies.
- The regime of quantitative restrictions on imports by keeping the tariffs very high was changed to facilitate free imports and exports.

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- The trade policy reforms were aimed at:
  1. Dismantling of quantitative restrictions on imports and exports
  2. Reduction of tariff rates
  3.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.
- Export duties were removed to increase the competitive position of Indian goods in the international markets.

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- PRIVATISATION
  Government controlled companies were gradually moved towards their conversion to private companies. 1. By withdrawal of the government from ownership and management of public sector companies and by 2. Outright sale of public sector companies.

- DISINVESTMENT-Privatisation of the public sector undertakings by selling off part of the equity of PSUs to public is known as disinvestment

- The government envisaged that Privatisation will bring efficiency, helps in modernisation and also attract FDI.

- The PSUs under governmental controls were given autonomy in taking managerial decisions.

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- GLOBALISATION:
  Globalisation mean integration of the economy of the country with the world economy.
- It is transforming the world towards greater interdependence and integration.
- It involves creation of networks and activities transcending economic, social and geographical boundaries. It is turning the world into one whole or creating a borderless world.
- Outsourcing is common feature in globalisation. In outsourcing a company hires regular service from external sources, mostly from other countries, which was previously provided within the country.

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- FDI:
  The opening up of the economy has led to rapid increase in foreign direct investment and foreign exchange reserves.
- The foreign investment which includes foreign direct investment (FDI) and foreign institutional investment (FII) has increased from about US$ 100 million in 1990-91 to US$ 400 billion in 2010-11.
- There has been an increase in the foreign exchange reserves from about US$6 billion in 1990-91 to US $ 300 billion in 2011-12.
- In 2011, India was the seventh largest foreign exchange reserve holder in the world.

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- DISINVESTMENT

Every year, the government fixes a target for disinvestment of PSUs. For instance, in 191-92, it was targeted to mobilise Rs. 2,500 crores through disinvestment. The government was able to mobilise `3,040 crore more than the target. In 2010-11, the target was `40,000 crore whereas the achievement was ` 22,850 crore.

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- NAVRATNAS AND PSUs:
  In order to improve efficiency, infuse professionalism and enable them to compete more effectively in the liberalized global environment, the government identifies PSUs and declare them as Maharatnas, Navaratnas and Miniratnas. 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 has also been granted to profit –making enterprises referred to as Miniratnas.
  MAHARATNAS: Indian Oil Corporation Ltd.,
  Steel Authority of India Limited.
  NAVARATNAS: BHEL, MTNL
  MINIRATNAS: Airport Authority of India, IRCTC

- Thank You