

CUET · ECONOMICS · CLASS XI · CODE 309

# Liberalisation, Privatisation and Globalisation: An Appraisal

CUET unit: LPG Reforms

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## Snapshot

- The **1991 balance-of-payments crisis** forced India to abandon its inward-looking, licence-based regime and adopt the New Economic Policy (NEP) (NCERT §3.1–3.2, pp. 39–40).
- Reforms rested on **three pillars**: Liberalisation (industry, financial sector, tax, forex, trade and investment), Privatisation (disinvestment, navratnas/maharatnas/miniratnas) and Globalisation (WTO, outsourcing) (NCERT §3.3–3.5, pp. 41–47).
- The **appraisal** is balanced — rapid GDP growth, surge in FDI and forex reserves, but concerns about agriculture neglect, jobless growth, weak infrastructure and rising inequality (NCERT §3.6–3.7, pp. 47–52).
- High-yield CUET territory: 1991 crisis specifics, NEP measures, WTO/GATT, navratna examples, the 74% bank FDI limit, the ₹devaluation and reform appraisal data are all NTA favourites.
- Macro-policy memory grid: 1991 (NEP), 1995 (WTO), 2001 (QR removal), 2016 (GST constitutional amendment), 2021–22 (GDP growth 9.4%).

## Detailed Notes

### 2.1 Core concepts

- **Origin of the 1991 crisis**: inefficient management of the economy through the 1980s; government expenditure persistently exceeded revenue, deepening fiscal deficit; imports grew faster than exports; foreign exchange reserves dropped to a level inadequate to finance imports for more than a fortnight (NCERT §3.2, pp. 39–40). India was on the verge of defaulting on external obligations.
- **External help and conditionality**: India approached the IBRD (World Bank) and the IMF and received about \$7 billion as a stabilisation loan. The two agencies imposed conditionalities — liberalise the economy, open it up to foreign trade and investment, reduce the role of government and dismantle trade restrictions (NCERT §3.2, p. 40). These conditionalities became the spine of the NEP.
- **New Economic Policy classification**: the NEP combined (i) **stabilisation measures** — short-term, intended to correct weaknesses in the BoP and bring inflation under control — and (ii) **structural reform measures** — long-term, aimed at improving efficiency of the economy and international competitiveness by

removing rigidities — under three heads: **liberalisation, privatisation and globalisation** (NCERT §3.2, pp. 40–41).

- **Industrial deregulation:** industrial licensing was abolished for almost all industries except a specified product list — **alcohol, cigarettes, hazardous chemicals, industrial explosives, electronics, aerospace, and drugs and pharmaceuticals**. Only industries reserved for the public sector are part of **atomic energy generation** and some core activities in **railway transport**. Small-scale industry reservations were progressively dismantled (NCERT §3.3, p. 41).
- **Financial sector reforms:** the principal aim was to reduce the role of the RBI from regulator to facilitator. Private sector banks — both Indian and foreign — were allowed; the foreign investment limit in banks was raised to **around 74%**; banks were given freedom to open new branches; Foreign Institutional Investors (FIIs) — merchant bankers, mutual funds, pension funds — were allowed to invest in Indian financial markets (NCERT §3.3, pp. 41–42).
- **Tax reforms:** continuous reduction in personal income tax rates (high marginal rates had encouraged evasion); corporation tax was gradually reduced; indirect taxes were reformed. In **2016 the Constitution was amended** to empower Centre and States to impose a Goods and Services Tax (GST), establishing "one nation, one tax, one market". Tax procedures were simplified to expand the base (NCERT §3.3, p. 42).
- **Foreign exchange reforms:** in 1991 the rupee was **devalued** against foreign currencies as an immediate measure to resolve the BoP crisis; this led to an increased inflow of foreign exchange. The rupee's value is now determined by market forces of demand and supply rather than fixed administratively (NCERT §3.3, p. 42).
- **Trade and investment policy reforms** had three prongs: (i) dismantling of **quantitative restrictions** on imports and exports; (ii) reduction of **tariff rates** to internationally comparable levels; (iii) removal of **import licensing** except for hazardous/environmentally sensitive industries. Quantitative restrictions on manufactured consumer goods and agricultural product imports were fully removed from **April 2001**; export duties were eliminated (NCERT §3.3, pp. 42–43).
- **Privatisation:** the shedding of ownership or management of a government-owned enterprise — either by (i) withdrawal of government from ownership and management or (ii) outright sale. The sale of part of the equity of a public sector enterprise to the public is called **disinvestment**. Purposes: improve financial discipline, facilitate modernisation, attract private capital and managerial know-how (NCERT §3.4, p. 44).
- **Navratnas, Maharatnas and Miniratnas:** select PSEs were given greater financial, managerial and operational autonomy to compete in the liberalised environment. Per Box 3.1 — **Maharatnas** include Indian Oil Corporation Ltd and Steel Authority of India Ltd; **Navratnas** include Hindustan Aeronautics Ltd, MTNL and IRCTC; **Miniratnas** include BSNL and the Airport Authority of India (NCERT Box 3.1, p. 44).

- **Globalisation:** integration of the country's economy with the world economy — the creation of networks and activities transcending economic, social and geographical boundaries, turning the world into a borderless whole (NCERT §3.5, p. 45).
- **Outsourcing:** hiring of regular service from external sources, mostly from other countries, that was previously provided internally. India's combination of relatively low wages and a large pool of skilled English-speaking manpower has made it the world's leading outsourcing destination — for BPO/call centres, accountancy, banking, music recording, film editing, book transcription, clinical advice and online teaching (NCERT §3.5, pp. 45–46).
- **World Trade Organization (WTO):** founded in **1995** as the successor organisation to the General Agreement on Tariffs and Trade (GATT), which itself was established in **1948 with 23 countries**. The WTO establishes a rule-based trading regime, expands production and trade of services, ensures optimum utilisation of world resources and protects the environment. India is a founder member (NCERT §3.5, pp. 46–47). WTO agreements cover both goods and services.
- **Appraisal — growth and investment:** GDP growth rose from **5.6% (1980–91) to 9.4% (2021–22)**. Foreign investment (FDI + FII) rose from about US\$100 million in 1990–91 to about US\$23 billion in 2022–23. Forex reserves rose from about US\$6 billion (1990–91) to about US\$646 billion (2023–24). India is now a major exporter of auto parts, pharmaceuticals, engineering goods, IT software and textiles (NCERT §3.6, p. 48).
- **Appraisal — concerns:** (i) reform-led growth has not generated sufficient employment — the "jobless growth" critique; (ii) **agriculture neglected** — public investment in irrigation, power, market linkages, research and extension fell; partial removal of fertiliser subsidy hurt small/marginal farmers; cheap imports flooded local markets; (iii) industrial growth slowed due to cheaper imports and inadequate infrastructure; (iv) disinvestment proceeds were used to offset revenue shortfalls rather than to build PSEs or social infrastructure; (v) tax reductions did not raise revenue; tariff cuts and tax incentives to foreign investors reduced developmental and welfare expenditure (NCERT §3.6, pp. 49–51).
- **GDP composition shift:** post-1991 GDP growth is driven mainly by the **service sector**; agriculture's growth declined during the reform period; industrial growth has fluctuated (NCERT Table 3.1, §3.6, pp. 47–48).
- **Pre-1991 inward-looking model:** through 1950–1990 India followed the Mahalanobis-Nehru template of heavy industry, public-sector dominance, import-substituting industrialisation, foreign-exchange controls, and a complex web of industrial licensing nick-named the "**licence-permit-quota raj**". The model produced respectable growth in the 1950s but stagnated by the 1970s; the 1991 crisis was therefore the culmination of accumulated inefficiencies, not a sudden shock (NCERT §3.1, p. 39).
- **Gulf War shock:** the 1990 Gulf War caused (i) oil prices to spike, raising India's import bill, and (ii) remittances from Indian workers in West Asia to plummet — both

worsening the BoP. NCERT mentions the Gulf War as a precipitating factor for the 1991 crisis (NCERT §3.2, p. 40, contextual).

- **Inflation context:** by 1990–91, double-digit inflation (above 12%) was eroding real incomes and credibility of the fixed exchange rate; bringing inflation down was therefore the second purpose of the stabilisation package, alongside BoP correction (NCERT §3.2, p. 40).
- **Historical fiscal-deficit context:** fiscal deficit had risen from about 3.5% of GDP in the late 1970s to over 8% by 1990–91, financed largely by domestic and external borrowing; the resulting interest burden left little room for capital expenditure — a key argument the NEP used for cutting subsidies and the public-sector footprint (NCERT §3.2, p. 39, contextual).
- **Indian data — exports and imports:** India's merchandise exports grew from about US\$18 billion in 1990–91 to over US\$447 billion in 2022–23 — a more than 24-fold rise; imports rose from about US\$24 billion to US\$714 billion in the same window. The widening trade deficit is balanced by services exports and remittances (NCERT §3.6, p. 48, contextual).
- **Indian data — service-sector share:** services rose from about 50% of GDP in 1990–91 to over 53% by 2010–11 and around 55% by 2022–23; agriculture's share fell from about 30% to under 18% in the same period — a structural-transformation chart that appears in data-interpretation questions.
- **Indian data — foreign investment composition:** of the US\$23 billion 2022–23 figure, FDI accounts for roughly two-thirds and portfolio investment (FII) for the rest; FDI is preferred for development economics because it is longer-term and brings technology and managerial know-how (NCERT §3.6, p. 48).
- **Reform decade vs decade before:** GDP growth averaged 5.6% (1980–91), 6.0% (1992–2001), 7.6% (2002–07), 8.2% (2007–12), 6.6% (2012–13), and 9.4% (2021–22). Services grew fastest; agriculture slowed (Table 3.1, NCERT p. 47).
- **Privatisation strategies — three routes:** (i) **public sale of shares** (e.g., dilution of equity holding in BPCL), (ii) **strategic sale of management control** (e.g., sale of Modern Foods, Hindustan Zinc to private buyers), (iii) **closure of loss-making units** that cannot be revived. NCERT illustrates routes (i)–(iii) as the three faces of disinvestment (NCERT §3.4, p. 44).
- **Disinvestment proceeds** were intended for capitalising loss-making PSUs and for social-sector spending; in practice much of the proceeds were used to bridge the fiscal deficit — a critique that NCERT explicitly raises in the appraisal (NCERT §3.6, p. 50).
- **Outsourcing — why India?** Four reasons NCERT highlights: (i) low wage rate, (ii) abundance of skilled, English-speaking manpower, (iii) IT-enabled infrastructure including telecom and internet bandwidth, (iv) time-zone advantage of being 10–12 hours ahead of US clients, enabling overnight task delivery (NCERT §3.5, p. 45).

- **WTO ministerial decisions:** India has resisted (i) inclusion of labour and environmental standards as trade conditionalities, (ii) restrictions on developing-country agricultural subsidies, (iii) tightening of TRIPS in ways that limit access to generic medicines — illustrating that India is an active rule-shaper within the WTO, not a passive rule-taker (NCERT §3.5, pp. 46–47).
- **Critique of globalisation (NCERT):** critics argue globalisation has been a strategy of advanced economies to expand markets for their own gains; the benefits have not been evenly distributed and many developing countries have failed to benefit (NCERT §3.5, p. 47).
- **Demonetisation of November 2016** is mentioned in Box 3.4 as a separate reform — withdrawal of ₹500 and ₹1000 notes from circulation to combat black money and counterfeit currency; though not part of the 1991 NEP family, NCERT places it within the chronology of post-1991 reform-style interventions (NCERT Box 3.4 contextual, contextual).
- **Siricilla tragedy data:** 50 powerloom weavers in Andhra Pradesh's Karimnagar district committed suicide between February and April 2001 after a sharp rise in power tariffs — a tariff hike linked to power-sector reforms — illustrating that micro-distributional impacts of macro-reforms can be severe (NCERT Box 3.3, p. 51).

## 2.2 Definitions to memorise

Term	Definition	Page
Balance of Payments (BoP) crisis	Situation where forex reserves are inadequate to finance imports, signalling external default risk	40
Stabilisation measures	Short-term measures intended to correct weaknesses in the balance of payments and bring inflation under control	40
Structural reform measures	Long-term measures to improve efficiency and increase international competitiveness by removing rigidities	40
Liberalisation	Removal of restrictions imposed by the government and opening up of various sectors of the economy	41
Privatisation	Shedding of the ownership or management of a government-owned enterprise	44
Disinvestment	Sale of part of the equity of public sector enterprises to the public	44
Strategic disinvestment	Sale of majority stake in a PSE that transfers control to the private buyer	44
Globalisation	Integration of the economy of the country with the world economy; creation of networks transcending boundaries	45
Outsourcing	Hiring regular service from external sources (often abroad) that was previously provided internally	45

Term	Definition	Page
Quantitative restrictions	Tight controls (such as import quotas/licences) on the quantity of goods that may be imported or exported	43
Tariff reduction	Lowering of customs duties to internationally comparable levels under the NEP	43
Devaluation	Lowering the value of the domestic currency against foreign currencies; done in 1991 to resolve the BoP crisis	42
Market-determined exchange rate	Exchange rate set by the demand and supply for foreign currency, replacing administered/pegged rates	42
WTO	World Trade Organisation, founded in 1995 as successor to GATT, providing a rule-based multilateral trading regime	46
GATT	General Agreement on Tariffs and Trade, established in 1948 with 23 founding members	46
FII	Foreign Institutional Investors — merchant bankers, mutual funds, pension funds — allowed to invest in Indian markets	42
GST	Goods and Services Tax introduced after the 2016 constitutional amendment to create "one nation, one tax, one market"	42
Maharatna	Top tier of CPSE classification with greatest autonomy (e.g., IOCL, SAIL)	44
Navratna	Second tier of CPSE classification with substantial autonomy (e.g., HAL, MTNL, IRCTC)	44
Miniratna	Third tier of CPSE classification (e.g., BSNL, Airport Authority of India)	44
BPO	Business Process Outsourcing — back-office work outsourced from advanced economies to India	45
Foreign Direct Investment (FDI)	Long-term investment by foreign entities in productive assets in India	48
Jobless growth	Growth in GDP without commensurate generation of employment	49

### 2.3 Diagrams / processes to remember

- **Table 3.1 (p. 47): Growth of GDP and Major Sectors (in %)** — compares Agriculture, Industry, Services and Total GDP across 1980-91, 1992-2001, 2002-07, 2007-12, 2012-13, 2013-14 and 2021-22. Key takeaway: total GDP growth rose from 5.6% (1980-91) to 9.4% (2021-22); services consistently lead the growth.
- **Fig. 3.1 (p. 46)** — Outsourcing as a new employment opportunity in big cities (BPO call-centre image).
- **Fig. 3.2 (p. 48)** — IT industry as a major contributor to India's exports.

- **Box 3.1 (p. 44): Navratnas and Public Enterprise Policies** — explicit names of Maharatnas (IOCL, SAIL), Navratnas (HAL, MTNL, IRCTC) and Miniratnas (BSNL, Airport Authority of India).
- **Box 3.2 (p. 46): Global Footprint** — ONGC Videsh (16 countries), Tata Steel (26 countries), HCL Technologies (31 countries), Dr Reddy's Laboratories.
- **Box 3.3 (p. 51): Siricilla Tragedy** — 50 powerloom weavers in Andhra Pradesh committed suicide after power-sector reforms led to tariff hikes; the canonical example of reform-induced distress.
- **NEP three-pillar flow:** BoP crisis → IMF/IBRD loan + conditionalities → Stabilisation (devaluation, fiscal consolidation, inflation control) + Structural reforms (Liberalisation + Privatisation + Globalisation) → growth surge but uneven sectoral outcomes.
- **Outsourcing process:** foreign firm identifies non-core service → contract with Indian vendor → work transmitted via telecom/internet → service delivered from India at lower cost and equal quality → BPO/KPO ecosystem grows.
- **Reading Table 3.1 (NCERT p. 47):** the table compares sectoral growth across six periods. Key reading rules — (i) compare totals across columns to see growth acceleration/deceleration, (ii) compare row entries to see which sector drove the change, (iii) note that 9.4% in 2021–22 is a **rebound** after pandemic contraction in 2020–21, not a sustainable steady-state rate. When asked "which sector contributed most", the answer is services for any post-1991 column.
- **GDP growth trajectory mental graph:** plot total GDP growth (Y) against decades (X) — the curve dips at 1980s end (crisis), rises steeply through 1990s, peaks at 8% + in 2003–07, dips again in 2008–09 (global financial crisis), recovers, dips sharply in 2020–21 (pandemic), and rebounds in 2021–22.

## 2.5 Key formulas / structural ratios

Formula / Indicator	Meaning	NCERT page
GDP growth 1980-91 = 5.6%	Pre-reform decade average	47
GDP growth 2021-22 = 9.4%	Post-pandemic rebound benchmark	47
Foreign investment 1990-91 ≈ US\$100 million	Pre-reform baseline	48
Foreign investment 2022-23 ≈ US\$23 billion	Post-reform scale	48
Forex reserves 1990-91 ≈ US\$6 billion	Crisis-level reserve	48
Forex reserves 2023-24 ≈ US\$646 billion	Post-reform cushion	48
Foreign investment limit in banks ≈ 74%	Financial-sector liberalisation cap	42

Formula / Indicator	Meaning	NCERT page
IMF/IBRD loan 1991 ≈ US\$7 billion	Bailout size	40

## 2.4 Common confusions / NTA trap points

- **Privatisation vs Disinvestment:** privatisation is the broader shift in ownership/ management; disinvestment is specifically the sale of part of PSE equity to the public. NTA often swaps these.
- **Liberalisation vs Globalisation:** liberalisation removes **domestic** restrictions; globalisation is integration with the **world** economy. They are distinct heads under NEP.
- **WTO vs GATT founding dates:** WTO — **1995**; GATT — **1948 with 23 countries**. NTA loves to flip these.
- **Industries still reserved for public sector:** only parts of **atomic energy generation** and certain **railway transport** activities — NOT the list of five exempted from licensing (alcohol, cigarettes, etc.). Licensing exemption ≠ public-sector reservation.
- **Foreign investment limit in banks:** raised to around **74%** (not 49% or 100%).
- **Forex reserves at crisis:** inadequate to finance imports for more than **a fortnight** (about two weeks), not "two months" — a common trap.
- **WTO functions:** include trade in **goods AND services**; rule-based regime, optimum use of world resources and environmental protection — not just tariff reduction.
- **Devaluation in 1991** is a stabilisation measure (short-term), not a structural reform.
- **GST constitutional amendment year = 2016** (not 2017, the year of rollout).
- **QR removal final date = April 2001** for manufactured consumer goods and agricultural products.
- **Jobless growth critique** applies to the reform decade — not to the entire 1950–1990 plan period.
- **Maharatna ≠ Navratna ≠ Miniratna:** NCERT Box 3.1 examples are tested directly; do not interchange IOCL (Maharatna) with HAL (Navratna).



## Practice MCQs

**Q1.** The immediate trigger for the introduction of economic reforms in India in 1991 was:


- A.** A famine in the agricultural sector
- B.** A crisis in the balance of payments and depleted foreign exchange reserves
- C.** The dissolution of the Soviet Union
- D.** The signing of the WTO agreement

**Q2.** Industrial licensing under the NEP was abolished for all industries EXCEPT a specified list. Which of the following is NOT in that exempted list of product categories?

- A.** Alcohol
- B.** Industrial explosives
- C.** Cement
- D.** Drugs and pharmaceuticals

**Q3.** Which of the following statements about WTO is/are correct? I. WTO was founded in 1995 as the successor organisation to GATT. II. GATT was established in 1948 with 23 countries. III. WTO agreements cover trade in goods only, not services.

- A.** I and II only
- B.** I and III only
- C.** II and III only
- D.** I, II and III

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## PYQ Alignment

This chapter is among the most heavily tested portions of CUET (UG) Economics, typically yielding 6–9 MCQs per year. NTA repeatedly draws from the 1991 BoP crisis (forex inadequate for a fortnight, US\$7 billion IMF/IBRD loan), the list of exempted industries, the WTO/GATT founding dates, navratna/maharatna examples, the 74% foreign investment limit in banks, the 1991 rupee devaluation, the meaning of disinvestment, and the appraisal contrasts (GDP/FDI/forex reserve numbers vs agriculture neglect and jobless growth). See [previous CUET PYQs on this chapter](#).

