

CHAPTER 3

Liberalisation, Privatisation and Globalisation: An Appraisal

CBSE Class 12 · Indian Economic Development ·
Chapter 3

CBSE · Indian Economic Development · Class 12

WHAT THIS CHAPTER DOES

A

Explain the 1991 economic (BoP) crisis and its four triggers.

B

Describe the New Economic Policy 1991 and its three pillars — L, P, G.

Boards prep that builds confidence, not anxiety.

TODAY'S MISSION

Today's mission

1

Explain the 1991 economic (BoP) crisis and its four triggers.

2

Describe the New Economic Policy 1991 and its three pillars — L, P, G.

3

List the five liberalisation reform heads and the privatisation/globalisation measures.

4

Critically appraise the reforms — what worked and what did not.

5

Score 6/6 on the annual 1991-crisis long-answer.

WHY THIS MATTERS

Why this chapter matters

- 1** 6-8 marks every CBSE board paper — the highest-weighted chapter after the planning chapter.
- 2** It is the pivot of the whole IED book: it explains how India shifted from the closed, planned model (Ch 2) to today's market economy.
- 3** Real-world: every headline about India's IT boom, FDI, GST or the rupee's exchange rate traces back to these 1991 reforms.

TOPIC

A

The 1991 Crisis + the New Economic Policy

TOPIC

Why the economy reached breaking point

FISCAL DEFICIT + INFLATION

Through the 1980s the central government spent far more than it earned — on subsidies, defence and loss-making public-sector undertakings — and bridged the gap by borrowing heavily, including directly from the Reserve Bank of India, which printed fresh

BALANCE-OF-PAYMENTS CRISIS

India's imports persistently exceeded its exports, and the economy could not earn enough foreign exchange to pay for essential imports or service its mounting external debt — a classic balance-of-payments crisis. By mid-1991 foreign-exchange reserves had

GULF WAR TRIGGER

The external shock that tipped a fragile situation into a full crisis was the 1990-91 Gulf War: it sent global crude-oil prices sharply higher, ballooning India's oil-import bill, while simultaneously cutting the remittances sent home by the large Indian workforce in the Gulf. So the import bill rose at the very moment

THE RESCUE + CONDITIONALITIES

Unable to meet its obligations, India pledged gold reserves to the Bank of England and the Bank of Japan and secured an emergency loan of about US\$7 billion from the International Monetary Fund and the World Bank. These institutions attached **CONDITIONALITIES**: India

WORKED EXAMPLE

The structure of the NEP 1991

- 1** Announced in 1991 as a response to the BoP crisis and the IMF/World Bank conditionalities.
- 2** Two kinds of measures: STABILISATION measures (short-run — control inflation, fix the BoP deficit) and STRUCTURAL-REFORM measures (long-run — improve efficiency and competitiveness).
- 3** Built on THREE pillars: LIBERALISATION (free up domestic business), PRIVATISATION (reduce the public-sector role), GLOBALISATION (integrate with the world economy).
- 4** Marked a decisive shift from a closed, inward-looking, planned economy to a market-oriented, globally integrated one.

TOPIC

B

Liberalisation

THEOREM · LOAD-BEARING RESULT

Liberalisation

“ Liberalisation means the removal of government-imposed controls, restrictions and licensing on private business so that the economy operates more freely on market principles.

STATEMENT

Five reform heads in 1991:
(1) INDUSTRIAL-SECTOR reforms — industrial licensing abolished for almost all products (a short list like alcohol, defence, hazardous chemicals retained); public-

WHY THIS MATTERS

- The licence-permit raj (the elaborate system of permits required to start or expand a business) had throttled private enterprise, efficiency and competition
- Liberalisation aimed to unleash private initiative, attract investment, and raise productivity.

WATCH OUT FOR

NOTE Industrial licensing was NOT abolished for ALL industries — a short list retained it. And don't confuse liberalisation (internal deregulation) with globalisation (external integration).

TOPIC

The five reform heads in detail

INDUSTRIAL-SECTOR REFORMS

The most visible liberalisation was the abolition of industrial LICENSING for almost all products — ending the 'licence-permit raj' under which an entrepreneur needed permission merely to start or expand a business; only a short list (liquor, cigarettes, defence equipment,

FINANCIAL-SECTOR REFORMS

The financial-sector reforms changed the role of the Reserve Bank of India from a tight REGULATOR into a FACILITATOR that lets the financial sector take many of its own decisions. New private Indian banks and foreign banks were permitted, increasing competition;

TAX + FOREIGN-EXCHANGE REFORMS

TAX reforms cut the rates of direct taxes — personal income tax and corporation tax — on the logic that moderate rates improve voluntary compliance and revenue, while the maze of indirect taxes was gradually simplified (culminating decades later in GST). FOREIGN-

TRADE & INVESTMENT-POLICY REFORMS

Trade and investment reforms dismantled the protectionist wall around Indian industry: quantitative restrictions (quotas / import licences) on most imports were removed, tariff (customs-duty) rates were cut steeply to expose domestic producers to global

TOPIC

C

Privatisation

TOPIC

Shrinking the public sector

WHAT PRIVATISATION MEANS

Privatisation is the transfer of **OWNERSHIP**, management or control of a public-sector undertaking (PSU) to the private sector. It can happen in two ways: by withdrawing the government entirely from a PSU and selling it outright, or by selling a part of the government's

DISINVESTMENT

Disinvestment is the specific instrument the government chose: the sale of (usually a **MINORITY**) part of its equity shareholding in a PSU to the private sector and the public. Its stated objectives were to raise revenue for the budget, to improve financial discipline in PSUs, and to broaden ownership —

NAVRATNAS

To make public-sector enterprises efficient and globally competitive rather than simply selling them off, the government granted selected **PROFITABLE** and well-managed PSUs greater operational, managerial and financial **AUTONOMY** — these were christened the 'NAVRATNAS' (nine jewels). With autonomy

OUTCOME + CRITIQUE

Privatisation and disinvestment did improve the efficiency and competitiveness of parts of the public sector and gave navratna firms room to grow into global champions. But the policy drew criticism: assets were sometimes disinvested at prices critics judged too low; sale proceeds were

TOPIC

D

Globalisation

THEOREM · LOAD-BEARING RESULT

Globalisation

“ Globalisation means the integration of a country's economy with the economies of the rest of the world — the relatively free flow of goods, services, capital, technology and (to a limited extent) labour across national borders.

STATEMENT

For India, globalisation involved: opening up to foreign trade (lower tariffs, fewer quotas), welcoming foreign investment (FDI + FII), allowing the inflow of foreign technology, and joining the

WHY THIS MATTERS

- Globalisation aimed to make India an integral part of the world economy — earning foreign exchange, attracting investment and technology, and giving consumers wider choice — reversing the inward-looking 'self-sufficiency' strategy of 1950-1990.

WATCH OUT FOR

NOTE Globalisation is OUTWARD-facing (linking India to the world); liberalisation is INWARD-facing (deregulating domestic business). And the WTO is a 1995 body, NOT part of the 1991 package.

TOPIC

Outsourcing and the WTO

OUTSOURCING

Outsourcing is a key feature of globalisation in which a company hires regular services — such as legal advice, customer support, banking back-office work, software development, transcription, accounting and even teaching — from EXTERNAL providers, increasingly in OTHER countries. India

THE WORLD TRADE ORGANISATION

The World Trade Organisation came into being on 1 JANUARY 1995 as the successor to the General Agreement on Tariffs and Trade (GATT, 1948), and India is a FOUNDER member. The WTO administers multilateral trade agreements, provides a forum for negotiation,

FOREIGN INVESTMENT + TECHNOLOGY

Globalisation opened India to foreign DIRECT investment (FDI — long-term investment in plants, factories and companies that brings capital, technology and management know-how) and foreign INSTITUTIONAL investment (FII — portfolio investment in

TWO VIEWS ON GLOBALISATION

Globalisation is double-edged. SUPPORTERS argue it expanded markets, brought capital and technology, made the IT and services sectors world-beating, gave consumers far greater choice and quality, and lifted overall growth. CRITICS argue the benefits flowed

TOPIC

E

An Appraisal — including demonetisation + GST

TOPIC

What the reforms achieved — and missed

GROWTH + SERVICES BOOM

The clearest success of the LPG reforms was a sustained acceleration in GDP growth and the spectacular rise of the SERVICES sector — information technology, software, telecommunications, finance and business-process outsourcing — which made India a

AGRICULTURE NEGLECTED

The central criticism of the reforms is the relative NEGLECT of AGRICULTURE, which still supports a majority of Indians. Public investment in irrigation, research and rural infrastructure was cut; input subsidies (on fertiliser, power, water) were reduced; the reduction of import

INDUSTRY + JOBLESS GROWTH

Industrial growth after 1991 was slow and uneven: domestic manufacturers, especially small-scale units, faced competition from cheaper imported goods, and inadequate infrastructure (power, roads) held back expansion, so industry never matched the

DEMONETISATION + GST

Two later reforms feature in the appraisal. DEMONETISATION (8 November 2016) withdrew the legal-tender status of ₹500 and ₹1000 notes, aiming to curb black money, counterfeit currency and terror financing and to push the economy toward digital, cashless transactions: its

WORKED EXAMPLE

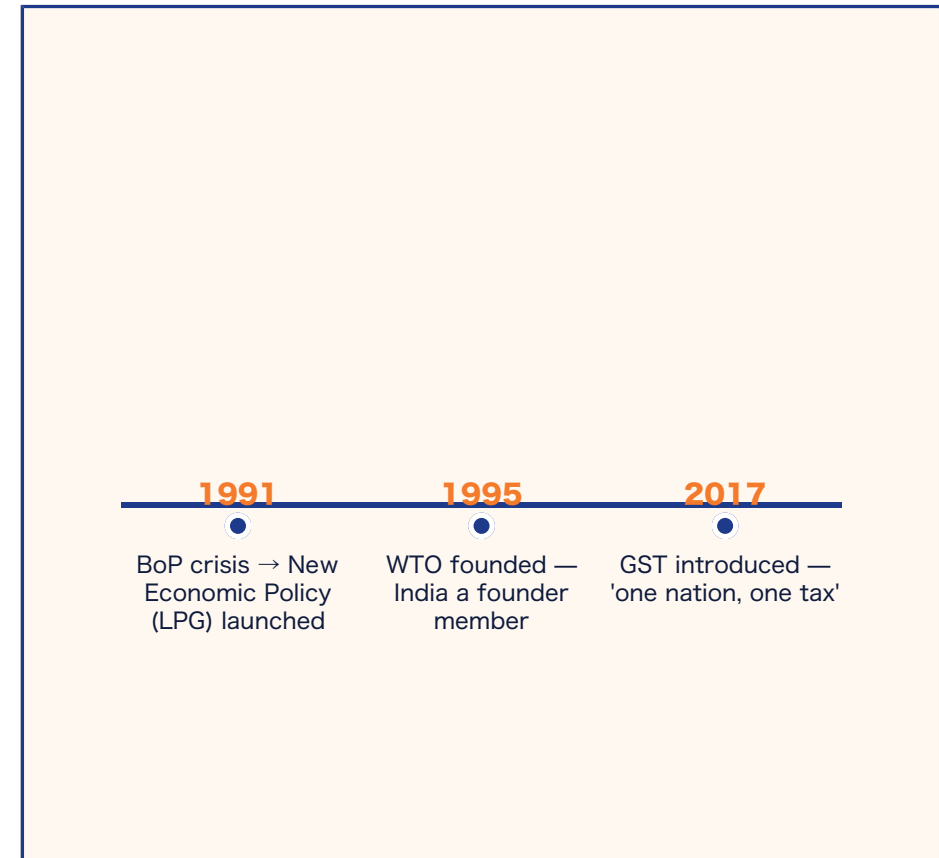
Critically appraising the LPG reforms

- 1 **POSITIVE:** GDP growth accelerated; the services/IT sector boomed; the BoP crisis was permanently resolved and forex reserves rose sharply.

- 2 **POSITIVE:** Foreign investment (FDI + FII) surged, inflation moderated, and competition improved consumer choice and product quality.

- 3 **NEGATIVE:** Agriculture was relatively neglected — less public investment, fewer subsidies, exposure to volatile global prices.

- 4 **NEGATIVE:** Industry grew slowly and unevenly under import competition; growth was 'jobless' — output rose faster than employment; inequality widened.



TOPIC

Trigger of the 1991 crisis

TRAP → TRUTH

× **MISTAKE** The 1991 crisis happened because India simply ran out of money / was poor.

✓ **CORRECT** It was a specific BALANCE OF PAYMENTS crisis: foreign-exchange reserves fell to about US\$1 billion — enough for barely TWO WEEKS of imports — so India could not pay for essential imports or service its external debt. The proximate triggers were chronic fiscal deficits (govt borrowing from RBI → inflation), inefficient import-substituting PSUs, and the 1990-91 GULF WAR which spiked global oil prices and cut remittances from Indians in the Gulf. India had to pledge gold and seek an IMF/World Bank loan with conditionalities.

TOPIC

Privatisation vs disinvestment

TRAP → TRUTH

× **MISTAKE** Privatisation and disinvestment mean exactly the same thing.

✓ **CORRECT** DISINVESTMENT is the government selling PART of its equity (shares) in a public-sector undertaking, usually a MINORITY stake, mainly to raise revenue. PRIVATISATION is the broader transfer of OWNERSHIP, management or control of a PSU to the private sector. Disinvestment is one route to privatisation, but selling a 10% stake (disinvestment) is not the same as handing over control (full privatisation). NCERT treats disinvestment as the government's chosen instrument.

TOPIC

Liberalisation = globalisation

TRAP → TRUTH

× **MISTAKE** Liberalisation and globalisation are the same reform.

✓ **CORRECT** LIBERALISATION = removing INTERNAL government controls and restrictions on private business (licensing, price controls, financial-sector rules). GLOBALISATION = INTEGRATING the Indian economy with the WORLD economy (free flow of goods, services, capital and technology across borders). Liberalisation is largely about the domestic regulatory environment; globalisation is about external integration. They are distinct components of the same New Economic Policy.

TOPIC

Outsourcing direction

TRAP → TRUTH

× **MISTAKE** Outsourcing means India sending its work to foreign companies.

✓ **CORRECT** In the NCERT/globalisation context, outsourcing means a company **HIRING** regular services (BPO, call centres, software, banking back-office, transcription, teaching) **FROM** other countries — and India became a **FAVOURED DESTINATION** because of low wage costs, a large English-speaking skilled workforce and IT capability. So work **FLOWS INTO** India from developed countries. India is the receiver of outsourced work, not the sender.

TOPIC

WTO founding year

TRAP → TRUTH

× **MISTAKE** The WTO was set up in 1991 along with India's reforms.

✓ **CORRECT** The World Trade Organisation came into being on 1 JANUARY 1995, as the successor to GATT (General Agreement on Tariffs and Trade, 1948). India is a founder member. So the WTO is NOT part of the 1991 package — it is a 1995 global development that India joined to integrate into the rule-based world trading system. Mixing up 1991 (India's NEP) and 1995 (WTO) is a common board error.

TOPIC

Rupee devaluation

TRAP → TRUTH

- × **MISTAKE** In 1991 the government raised the value of the rupee to fight the crisis.
- ✓ **CORRECT** The opposite — in July 1991 the rupee was DEVALUED by about 18-19% against major currencies. Devaluation makes exports cheaper (more competitive) and imports dearer, helping correct the balance-of-payments deficit. This was part of the FOREIGN-EXCHANGE reforms and also began the move toward a market-determined exchange rate.

TOPIC

Appraisal — who benefited

TRAP → TRUTH

- × **MISTAKE** The LPG reforms lifted every sector of the economy equally.
- ✓ **CORRECT** The reforms produced UNEVEN gains. The SERVICES sector (IT, telecom, finance, BPO) boomed and led GDP growth, but AGRICULTURE was relatively NEGLECTED (cut in public investment, removal of subsidies, exposure to global price volatility), and INDUSTRY faced competition from cheap imports and recorded slow, uneven growth. Critics also point to JOBLESS GROWTH — GDP rose faster than employment. A correct appraisal is BALANCED, not uniformly positive.

TOPPER TEMPLATE · MARK-BY-MARK

6-mark: 'Why did India face an economic crisis in 1991? / Explain the circumstances that led to

1 INTRODUCTION + THESIS

1 m

By 1991 India was in a severe economic crisis — essentially a BALANCE OF PAYMENTS crisis combined with very high fiscal deficits and inflation. Foreign-exchange reserves had collapsed to a level that could finance barely two weeks of imports, forcing India to adopt the New Economic Policy of 1991.

2 DOMESTIC CAUSES (FISCAL + PSU INEFFICIENCY)

2 m

(1) CHRONIC FISCAL DEFICITS: government expenditure (subsidies, defence, loss-making PSUs) far exceeded revenue, so the government borrowed heavily — including from the RBI, which printed money, pushing inflation to about 17%. (2) INEFFICIENT PUBLIC SECTOR: many PSUs ran losses, and the licence-permit raj choked private enterprise — so the economy could not generate the exports needed to earn foreign exchange.

3 EXTERNAL TRIGGER (GULF WAR + RESERVES)

1 m

(3) GULF WAR (1990-91): global crude-oil prices spiked, sharply raising India's import bill, while remittances from Indian workers in the Gulf fell. (4) FALLING FOREX RESERVES: reserves dropped to about US\$1 billion (two weeks of imports); India could not service its external debt and the credit rating fell, drying up further borrowing.

4 RESPONSE — IMF/ WORLD BANK LOAN + CONDITIONALITIES

1 m

India pledged gold to the Bank of England and the Bank of Japan and secured a loan of about US\$7 billion from the IMF and World Bank. In return India accepted CONDITIONALITIES — to LIBERALISE and DEREGULATE the economy, PRIVATISE/reform PSUs, and reduce trade barriers (open up / GLOBALISE).

5 CONCLUSION — NEP 1991

1 m

The crisis was the immediate cause of the NEW ECONOMIC POLICY (1991), built on the three pillars of LIBERALISATION, PRIVATISATION and GLOBALISATION (LPG), marking a decisive shift from a closed, planned economy to a market-oriented, globally integrated one.

TOPPER TEMPLATE · MARK-BY-MARK

6-mark: 'Explain the measures taken under liberalisation.'

- | | |
|--|--|
| <p>1</p> <p>DEFINITION</p> <p>1 m</p> | <p>LIBERALISATION means removing the government-imposed controls and restrictions on private business so that the economy operates more freely on market principles. The 1991 reforms liberalised five major areas.</p> |
| <p>2</p> <p>INDUSTRIAL-SECTOR REFORMS</p> <p>1 m</p> | <p>(1) INDUSTRIAL-SECTOR REFORMS: industrial LICENSING was abolished for almost all products (only a few like alcohol, defence equipment, hazardous chemicals retained licensing); the list of industries reserved for the public sector was cut from 17 to just a few (e.g. atomic energy, railways); and price controls on many goods were removed.</p> |
| <p>3</p> <p>FINANCIAL-SECTOR REFORMS</p> <p>1 m</p> | <p>(2) FINANCIAL-SECTOR REFORMS: the RBI shifted from a regulator to a FACILITATOR; private Indian and foreign banks were allowed; Foreign Institutional Investors (FIIs) were permitted to invest in Indian markets; and the Securities and Exchange Board of India (SEBI) was empowered to regulate capital markets.</p> |
| <p>4</p> <p>TAX + FOREX REFORMS</p> <p>1 m</p> | <p>(3) TAX REFORMS: direct-tax rates (income and corporation tax) were reduced to improve compliance, and the indirect-tax structure was simplified (later culminating in GST). (4) FOREIGN-EXCHANGE REFORMS: the rupee was DEVALUED in 1991 and the country moved toward a MARKET-DETERMINED exchange rate, freeing the forex market from rigid government control.</p> |
| <p>5</p> <p>TRADE + INVESTMENT REFORMS + CONCLUSION</p> <p>1 m</p> | <p>(5) TRADE & INVESTMENT-POLICY REFORMS: quantitative import restrictions were dismantled, tariff (import-duty) rates were cut sharply, export duties were removed, and limits on foreign investment were relaxed. Together these measures opened the Indian economy to competition and efficiency.</p> |

TOPPER TEMPLATE · MARK-BY-MARK

6-mark: 'Critically appraise the LPG reforms / assess their impact on agriculture and industry.'

1 INTRODUCTION + BALANCED THESIS
1 m

The LPG reforms transformed India from a slow-growing, closed economy into one of the world's fastest-growing economies — but the gains were UNEVEN across sectors, so a fair appraisal must weigh both achievements and failures.

2 POSITIVE IMPACTS
2 m

POSITIVES: (1) GDP growth accelerated and the SERVICES sector (IT, telecom, finance, BPO) boomed, making India a global services hub. (2) Foreign-exchange reserves rose dramatically and the BoP crisis was permanently resolved. (3) Inflation moderated, foreign investment (FDI + FII) surged, and consumer choice and product quality improved through competition.

3 NEGATIVE IMPACTS / CRITICISMS
2 m

CRITICISMS: (1) AGRICULTURE was NEGLECTED — public investment in irrigation and infrastructure fell, subsidies were reduced, and farmers were exposed to volatile global prices. (2) INDUSTRY grew slowly and unevenly, hurt by cheap imports and inadequate infrastructure. (3) Growth was 'JOBLESS' — output rose faster than employment. (4) Reforms widened inequality and the reform of disinvestment proceeds was often used to cover deficits rather than fund development.

4 CONCLUSION
1 m

On balance, the LPG reforms were a NECESSARY and largely successful response to the 1991 crisis that revived growth and global integration — but their failure to spread benefits to agriculture and to generate adequate employment means the appraisal must remain a QUALIFIED success.

PYQ PATTERNS

Top PYQ patterns to drill

#1	Why did India face an economic crisis in 1991? / Explain the circumstances that led to the New Economic Policy. (6 marks)	Annual
#2	Explain the measures taken under liberalisation (industrial / financial / forex / trade reforms). (4-6 marks)	2018, 2020, 2022, 2024
#3	What is disinvestment? Explain privatisation as a component of the New Economic Policy. (3-4 marks)	2017, 2019, 2023
#4	What is globalisation? Explain the role of outsourcing / the WTO. (3-4 marks)	Most years
#5	Critically appraise the LPG reforms / assess their impact on agriculture and industry. (5-6 marks)	2019, 2022, 2024

MARKS DISTRIBUTION

10-year marks distribution

10-YEAR PYQ MARKS DISTRIBUTION

1991 economic crisis — causes (BoP, fiscal deficit, Gulf War, IMF loan)



30%

Liberalisation measures (industrial / financial / tax / forex / trade reforms)



28%

Privatisation + disinvestment + navratnas



16%

Globalisation + outsourcing + WTO 1995



22%

Appraisal — growth vs neglect of agriculture/industry, jobless growth, demonetisation, GST



24%

RECAP · MEMORISE THESE

Recap

1 1991 crisis — A BoP crisis (reserves ~US\$1bn / 2 weeks imports) caused by fiscal deficits + inefficient PSUs + the Gulf War. India took a ~US\$7bn IMF/World Bank loan with conditionalities → New Economic Policy 1991.

2 L, P, G —
LIBERALISATION = deregulate domestic business (5 reform heads: industrial, financial, tax, forex, trade).
PRIVATISATION = transfer PSUs to private sector (disinvestment + navratnas).
GLOBALISATION =

3 Appraisal — Services boomed and the BoP crisis ended, but agriculture was neglected, industry grew slowly, and growth was 'jobless'. A qualified success; reform continued via demonetisation (2016) and GST (2017).

WHAT'S NEXT

What's next

- Chapter 4 — Poverty (measurement, causes, and anti-poverty programmes).
- Sit the 15-MCQ Quick Drill on the LPG reforms.

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