Q13

# Has the Indian governmental system responded adequately to the demands of Liberalization, Privatization and Globalization started in 1991? What can the government do to be responsive to this important change?

UPSC Civil Services Mains 2016 · GS II · 12 marks · Governance and Policy

Government policies and interventions for development in various sectors and issues arising out of their design and implementation.

## Core demand of the question

- Has the Indian governmental system responded adequately to the demands of Liberalization, Privatization and Globalization started in 1991? What can the government do to be responsive to this important change?

## Revision summary

LPG asked the State to regulate and cushion, not to licence every investment.

India delicensed industry, cut tariffs, created SEBI, TRAI, CCI and similar bodies, and used some disinvestment.

Factor markets, full PSU reform, district inspections and farm marketing lagged.

WTO-era patents and farm talks show unfinished globalisation politics.

Further response needs independent regulators, bankruptcy and exit, State-level ease, and portable social security.

## Introduction

The 1991 crisis forced India to cut the licence raj, welcome more foreign capital, and join a more open world market. Liberalization, privatization and globalization (LPG) asked the governmental system to shift from a controlling owner to a regulator, a competition umpire, and a social-safety provider. The response has been real but uneven: the Union opened many product markets; land, labour, farms, and some public monopolies still run on an older grammar.

## Body

### What 1991 demanded of government

- Delicense industry, lower peak tariffs, and let the rupee find a market rate so that firms, not the licence committee, decide investment.
- Reduce the State's role as owner where private capital can compete, and use disinvestment both for efficiency and for fiscal space.
- Accept global rules, later including the WTO (1995), and build regulators who are not the old producing ministry in a new name.

- Protect the poor with targeted transfers, because prices and jobs would shift faster than the old planning model allowed.

## Where the system did respond

- The New Industrial Policy, 1991, ended most industrial licensing. Peak customs duties fell over the 1990s and 2000s. FDI caps were raised in many sectors through the DIPP/DPIIT route.
- **Independent regulators appeared:** SEBI (given statutory force in 1992), TRAI, CERC, IRDAI, and the Competition Commission under the Competition Act, 2002, replacing the old MRTP control mindset.
- Disinvestment and strategic sales moved some public firms toward the market; a Disinvestment Commission and later a department gave the file a home.
- Tax reform, convertibility on the current account, and a more professional RBI-government dialogue improved macro management compared with 1991.
- Trade policy used export promotion, SEZs, and later GST design work (still incomplete in 2016) to match a globalised production chain.
- **Social response was not absent:** MGNREGA, RTE, and a shift toward Direct Benefit Transfer tried to cushion those whom LPG did not automatically lift.

## Where the response was not adequate

- Factor markets lagged product markets. Labour statutes stayed fragmented; land acquisition remained politically explosive after the 2013 Act; farm marketing in many States still ran through old mandi law.
- Privatization often meant selling minority shares, not a hard budget for remaining PSUs. Bank recapitalisation without a bankruptcy code (the Insolvency and Bankruptcy Code, 2016, was only just born) left sick capital stuck.
- Ease of doing business at the district window - inspections, power, contract enforcement - did not match the 1991 speech in many States.
- Globalisation brought WTO disputes on agriculture, patents (mailbox and then product patents from 2005), and services. India adapted the Patents Act but still struggles to speak with one trade-and-livelihood voice.
- Inequality, informal jobs, and regional concentration of investment show that LPG was not matched by equal State capacity in education, skilling and urban land.

## What government can still do to stay responsive

- Finish a national bankruptcy-to-exit path, recast remaining PSUs as commercial boards or sell where the State has no strategic need, and stop using banks as a second budget.
- **Build State-level factor reform:** simpler labour codes, time-bound land and building permission, and power that is billed and paid.
- Keep independent regulators genuinely independent of the line ministry, with published orders and appellate tribunals that work.
- Use WTO and FTA talks to open what India can compete in, while defending food security, public health TRIPS flexibilities, and a services agenda (Mode 4) that matches India's strength.
- Pair openness with portable social security, skilling, and logistics so that a worker and a small firm can enter the global chain without a licence tout.
- **Cooperative federalism:** LPG now lives in GST-type bargains, State industrial policy, and city land. The Union cannot liberalise on paper while States remain inspector raj.

## Flow diagram

LPG 1991 1991 -> Delicensing FDI regulators

LPG 1991 -> Gaps labour land PSU banks

Delicensing FDI regulators -> Partial response

Gaps labour land PSU banks -> Partial response

Partial response -> Next independent umpires exit social floor

## Conclusion

The governmental system did respond to 1991 by delicensing, building regulators, cutting tariffs and adding some social floors. It has not responded adequately on factor markets, true privatization, district-level ease, and equal human capital. Responsiveness now means independent umpires, exit for sick firms, State-level reform, and social security that travels with the worker in an open economy.

## Facts & figures

**New Industrial Policy, 1991**
Abolished industrial licensing for most sectors and opened the door to a larger private and foreign role.

**WTO membership, 1995**
Bound India to multilateral trade rules, including later TRIPS-compliant product patents from 2005.

**Competition Act, 2002**
Shifted from MRTP-era size control to a prohibition of anti-competitive agreements and abuse of dominance.

**SEBI Act, 1992**
Gave the capital-market regulator statutory status as the licence raj in industry receded.

**Insolvency and Bankruptcy Code, 2016**
Created a time-bound exit and resolution path that 1991-era liberalisation had lacked.