1.What are the various forms of privatisation? Which one of them has been the most prominent one in India? Discuss.

Introduction

Privatization generally refers to inducing private sector participation in the management and ownership of Public Sector Enterprises. In India Privatisation began with the 1991 LPG Reforms.

Body

Privatization in India

Privatization in the country was launched mainly to enhance the efficiency of the public sector enterprises as well as to concentrate the operation of the public sector in priority areas.

Types of Privatisation:

- Privatization is often referred as denationalization and destatization i.e., transfer of the state ownership of the assets to the private sector to the tune of 100 per cent. India never ventured into such type of privatization.
- Another type of privatization is disinvestment. This process includes selling of the shares of the state-owned enterprises to the private sector. Disinvestment is de-nationalization of less than 100 per cent ownership transfer from the state to the private sector. If the sale of shares of the state-owned assets has been to the tune of 51 per cent, the ownership is really transferred to the private sector even then it is termed as privatization.
- Another way, in which the term privatization has been used around the world, is very wide. Basically, all the economic policies which directly or indirectly seem to promote the expansion of the private sector or the market (economy) have been termed by experts and the governments as the process of privatization. We may cite few examples from India—delicensing and de-reservation of the industries, even cuts in the subsidies, permission to foreign investment, etc.

India has been following privatisation strategies like selling of loss making units to the private sector, inviting private participation in PSEs, and strategic sale etc.,

Most Prominent type of Privatisation in India - Disinvestment.

The New Industrial Policy of 1991, introduced disinvestment policy along with other economic reforms.

Journey of Disinvestment as a Process:

- It helped to raise finances for the government which are spent on social sector priorities and reduces the debt burden of the government. Eg. Against the target of Rs. 80000 crores stipulated in the Budget 2018-19, the government has earned over Rs.85000 crores from disinvestment in 2018-19.
- It exposed the PSUs to market discipline forcing them to become more efficient and survive on their own financial and economic strength.
- It reduced the burden on the government by limiting the budgetary support which it has to provide to PSUs. Until 2016, the government has raised around Rs. 1.8 lakh crores through disinvestments, beginning in 1992.
- It can end the public sector monopoly in many sectors, introduce competition, reduce the costs and improve the quality of services offered to consumers. E.g. telecom, civil aviation.

Few fallouts

- Government shareholding in PSUs is a public asset is being liquidated to meet the immediate needs.
- PSUs act as a check on private enterprises and safeguard the wider public interests in the market. For example, in the absence of PSUs, private enterprises may form a cartel.
- When the government goes for a strategic sale/privatization, there are chances of a PSU being sold off at a lower value to a private entity which can be against the larger public interest.

Conclusion:

In India, hence privatization is a successful strategy and unique in form in accordance with the priorities of our mixed economy and as well as by considering operational aspects of the PSUs.

2. What objectives can the liberalisation of the defence sector achieve for India? Analyse.

Introduction

The Defence Sector in India, being a strategic sector, was traditionally reserved for the Public Sector till 1991. Defence Public Sector Undertakings (Defence PSUs) and Ordnance Factory Board (OFB) monopolised defence products manufacturing while R&D was the exclusive turf of DRDO.

Body

Background:

- Until the year 2000, foreign direct investment (FDI) was not permitted in the Indian defence sector.

- The year 2001 marked the advent of privatization in the defence industry and the Government permitted FDI in the defence sector up to an equity stake of 26% through the Government approval route.
- In 2014, it was increased up to 49% FDI under the automatic route and beyond 49% under the Government approval route, subject to certain conditionality.
- Recently, FDI in the defence sector was further liberalised to allow up to 49% under the automatic route, and beyond 49% to 100% under the Government approval route on a case to case basis.
- Draft New Defence Production Policy liberalises licences that will be provided to defence industries and the requirements for renewal of licences will be pruned. Also, the companies with a good track record will be given favourable consideration.
- Other steps include simplification of export procedure, streamlining of defence offset guidelines etc.

Benefits of liberalization:

- **Quality Products**- Infrastructure facilities are likely to improve due to higher capital infusion. Manufacture of improved quality products due to inflow of technology, expertise, improved R&D and better production facilities.
- **Reduced cost**- The cost of production is also likely to reduce due to economies of scale and manufacturing within country, making Indian weapons and equipment globally competitive.
- **Reduction of Reserves**- Higher FDI translates into better infrastructure, enhanced capacities and greater self-reliance. This would in turn also result in reducing the stock levels of reserves of munitions, weapons, equipment, assemblies and components held at various echelons of the Armed Forces.
- **Boost to Economy**- The capital base of the country will be positively affected due to inflow of foreign capital. This will also lead to increase in tax revenue.
- Positive Performance Pressure on Public Sector Enterprises- The public sector enterprises, namely, Defence Research and Development Organisation (DRDO), Defence PSUs and OFB will face increased performance pressure.
- **Employment Opportunities**- Increased defence manufacturing will create employment opportunities, both in organised and un-organised sector, for large number of unemployed people due to increased level of economic activity.
- **Increase in International Trade**: Increase in international trade, both by value and volume, due to enhanced production capacity, increased competitiveness and export-oriented outlook.
- **Insulation from Embargoes**: Presently, India is procuring most of the critical weapons systems and equipment that are either manufactured or both manufactured and integrated abroad. When the same weapons systems and equipment are manufactured in the country, indigenous production will tend to insulate the country from unilateral imposition of embargoes by whimsical foreign suppliers.

- **Intellectual Property**- The new policy and measures can promote India as a hub for defence related Intellectual Property (IP).

Challenges of liberalization:

- **Security Concerns**: Security issues especially with respect to proliferation of modern communication equipment, electronic counter measure equipment and small arms may arise. Moreover, in India which has significant internal security issues including Naxal violence and terrorism, liberalization for all items in the Defence Products List has a fair potential to give negative results.
- **Competition for Domestic Private Industry**: The Indian private industry is not yet well established in the defence sector. The JVs that are formed post investment by established foreign defence companies, will offer stiff competition to domestic private defence industry. Hence, opening of floodgates for more than 49 percent (and up to 100 percent) FDI in defence sector is likely to dwarf many domestic players, who may find the going difficult and get wiped out in the competition.
- **Overbearing Presence of Foreign Companies**: Unrestricted FDI in defence sector may lead to overbearing presence or a kind of monopoly in production of high technology weapons and equipment by select foreign companies in the absence of majority stake holding by Indian citizens and/or lack of adequate control by the Indian Government.
- **Sharing of Benefits**: Foreign investors may tend to utilise the domestic resources without sharing adequate benefits with the host country.
- **Emergence of Cartels and Lobbies**: There is a likelihood of the emergence of cartels and lobbies which collude to raise defence expenditure or garner greater share of the defence procurement pie.

Conclusion

Self-reliance is a major corner-stone on which the military capability of any nation rests. However, to grab position among the top defense production countries of the world and improve its defense related capabilities, India must make a balance between liberalization and the security and other concerns.

3. What are export-oriented units (EOUs)? How are they different from Special Economic Zones (SEZs)? What incentives do EOUs get? Discuss.

Introduction:

With intent to give impetus to forex reserves of the country, Government has been regulating the export-import policy and has introduced various schemes for promoting exports of both goods and services. Special Economic Zones (SEZ) and Export Oriented Units (EOUs) schemes are also part of this export promotion strategy.

Body:

Export-oriented units: They are units undertaking to export their entire production of goods. The main objectives of the EOU scheme are to increase exports, earn foreign exchange to the country, transfer of latest technologies stimulate direct foreign investment and to generate additional employment.

Special Economic Zone: It is a specifically delineated duty-free enclave and shall be deemed to be foreign territory for trade operations and duties and tariffs. In order words, SEZ is a geographical region that has economic laws different from a country's typical economic laws. Usually, the goal is to increase foreign investments.

Difference of SEZ and EOU:

Factors	**Special Economic Zone (SEZ)**	**Export Oriented Units (EOU)**
Location	Can only be set up in the demarcated custom bonded areas notified by the government.	EOU Scheme specially offers flexibility in location as a unit can be established in any industrial or commercial areas.
Conversion	In SEZ conversion of the existing unit is not allowed.	Conversion of the existing unit into EOU is permissible.
Investment Criteria	No investment criterion is prescribed under the SEZ scheme.	Minimum investment of Rs. 1 crore in plant and machinery is prescribed. However, this condition shall not apply to existing unit and units in agriculture, handicrafts and handmade jewellery etc.
Period of utilisation	Duty-free goods (except capital goods) to be utilised within five years.	Duty-free goods (except capital goods) to be utilised within three years.
Trading	Trading unit can be set up under the Scheme.	It had been discontinued under EOU scheme.
Custom Clearance	In case of SEZ units, customs clearance for export and import is obtained within the zone itself.	Fast Track Clearance Scheme (FTCS) for clearances of imported consignments for EOU.
Supplies made by Indian Suppliers Infrastructure	Supplies to SEZ are 'exports' and all export benefits are available.	Supplies made to EOU by Indian supplier are 'deemed exports' and supplier is entitled to benefits of 'deemed export'.
Foreign Investment	Cent per cent FDI investment is permitted through	Formal FIPB approval as per sectoral guidelines is

	automatic route without approval for SEZ manufacturing unit.	required.
Infrastructure	General infrastructure available to SEZ unit is much better. It offers well-developed enclaves of industrial infrastructure with plots, built-up space, power, water supply, transport etc.	General infrastructure available to EOU unit is not as better as available to SEZ units.
Income Tax Exemption	Provides for deduction to the extent of 100% of profit and gains for 5 consecutive assessment year and thereafter to the extent of 50% of the profit and gains for a further period of 2 assessment year and for the next 3 consecutive assessment year, so much of the amount not exceeding 50% of the profits as is debited to the Profit/Loss account of the previous year.	Section 10B of Income Tax Act, 1961 allows relief from Income Tax burden for a period of 10 consecutive assessment years.

The Export Oriented Units (EOUs) is complementary to the SEZ scheme. It adopts the same production regime but offers a wide option in locations with reference to factors like the source of raw materials, ports of export, hinterland facilities, availability of technological skills, the existence of an industrial base and the need for a larger area of land for the project.

Incentives of Export Oriented Units:

- Allowed to procure raw material or capital goods duty-free, either through import or through domestic sources.
- Eligible for reimbursement of GST.
- Eligible for reimbursement of duty paid on fuels procured from domestic oil companies.
- Eligible for claiming the input tax credit on the goods and services and refund thereof.
- Fast track clearance facilities.
- Exemption from industrial licensing for the manufacture of items reserved for SSI sector.
- Export through the third party permitted.

- No restriction on foreign shareholding and 100% convertibility of export earnings at market rate.
- Unrestricted remittance of profit and dividends.

Conclusion:

This bold and time-tested scheme of EOU requires revamping and a fresh lease of life as well as need special attention for growth. It is also possible to attract further investment in this sector if proper conditions are created.

4. The small and medium enterprises hold the key for accelerating India's economic growth? Elucidate.

Introduction:

As India gears up to retrace the high growth path, the Micro, Small and Medium Enterprises sector assumes a pivotal role in driving the growth engine. This sector in India continues to demonstrate remarkable resilience in the face of trailing global and domestic economic circumstances.

Body:

Importance of small and medium enterprises in India's economy:

- **Present contribution of the sector to overall economy:** The share of MSME Gross Value Added (GVA) in total GVA during 2016-17 was 31.8% and Exports' contribution which currently stands at 50%.
- **Employment generation**: The small and medium enterprises account for 11.10 crores jobs, becoming the 2nd largest employment provider. SMEs are thought to have lower capital-output and capital-labour ratios than large-scale industries, and therefore, better serve growth and employment objectives.
- **Helps in inclusive growth**: the larger population in India is involved in the economy in a big way through the SMEs. It focuses on empowering people to break the cycle of poverty and deprivation, on people's skills and agency.
- **Checks rural-urban migration**: In the village, a person may at least live a dignified life, but when he becomes a slum dweller in the city, what he is put through is quite terrible. Not only do MSMEs generate the highest employment per capita investment, they also go a long way in checking rural-urban migration by providing people living in isolated areas with a sustainable source of employment.
- **Increases export potential and promote sustainable growth**: The share of MSME related Products in total export from India during 2018-19 is 48.10%.

A major portion of the exports from SMEs are handcrafted and eco friendly and thus help in sustainable growth.

- **Strong backward linkages**: They act as ancillary industries for Large Scale Industries providing them with raw materials, vital components and backward linkages. For ex: large scale cycle manufacturers of Ludhiana rely heavily on the MSMEs of Malerkotla which produce cycle parts.

Challenges for the growth of SMEs:

- Deficiency in basic infrastructure: Such as water, rail, digital connectivity, electricity etc rendering them less productive in several stages.
- Difficulty in access to capital and thus, heavy dependency on informal sources of credit.
- Slow market penetration and weak design as a market driver.
- Lack of latest technology.
- Reduced competitiveness compared to imported products.
- Weak expansion and confinement to rural India and thus problem of a huge number of unregistered SMEs.
- Lack of skilled labour.
- Increase in red tapism and bureaucratic difficulties.

However, many of the obstacles and shortcomings have been addressed in the recent years:

- **Policy support**: MSMED Act 2006 and subsequent amendment in 2018, National Apprenticeship Promotion Scheme, Revamped SFURTI (Scheme of Fund for Regeneration of Traditional Industries), ASPIRE (A Scheme for Promotion of Innovation, Rural Industries and Entrepreneurship), MSME Outreach programme in 2018 etc. Prime Minister's Employment Generation Programme (PMEGP) alone generated employment of 5.87lakhs (number of persons) in micro enterprises during the years 2018-19 only.
- **Infrastructure strengthening**: MSME Samadhaan, Udyami Mitra Portal, MSME Sambhandh, Zero Defect-Zero Effect scheme, Cluster Development Programme, National Manufacturing Competitiveness programme (NMCP) etc.
- **Credit and financial strengthening**: Through Technology Development and Acquisition Fund (TADF), Trade Related Entrepreneurship Assistance and Development Fund (TREAD), Mudra Loan scheme, Trade receivables discounting system (TReDS) etc.
- **Definition of MSMEs**: Classifying MSMEs from current investment in plant and machinery criteria to annual turnover criteria, compliant with the formally introduced GST regime.

What can be done?

- **Recommendation:** Kochi based Institute of Small Enterprises and Development at the South India MSME Summit 2019 in Bangalore in its report recommends an entitlement approach that can have the potential of compelling all related stakeholders to work on a common national agenda and solutions under a scientifically structured framework.
- **Availability of Uncollateralized Credit**: Create or sponsor multiple streams of credit funding for legitimate MSMEs as most service MSMEs do not have hard assets against which to secure credit.
- **Free or Subsidized Education and Training in Business Management**: Publicly funded colleges and universities must be set-up to create free or subsidized curricula for MSMEs to gain business knowledge and related skills.
- **Simpler Business Registration and Insolvency Regulations:** Make it easier to form new businesses and to suspend operations or restructure with adequate insolvency protection as is the norm in most countries.

Conclusion:

The Indian MSME sector is poised for rapid growth and integration with major global value chains. Timely policy intervention and due support will definitely result in rendering the Indian MSMEs globally competitive. Thus, the emerging focus of India's MSME policy should aim at covering the entire lifecycle of MSMEs to ensure a healthy, vibrant and competitive MSME sector.

5. What further measures can be taken to liberalise the farm sector? Suggest. What would be its long-term implications? Examine.

Introduction

Liberalization is any process whereby a state lifts restrictions on some private individual activities. Liberalization occurs when something which used to be banned is no longer banned, or when government regulations are relaxed.

Body

Measures taken to liberalise farm sector:

- Infrastructure: Infrastructure development requires public expenditure which is getting affected due to the new policies of fiscal compression. Liberalization of agriculture and open market operations will enhance competition in "resource use" and "marketing of agricultural production", which will force the small and marginal farmers.

- Small and marginal farmers: Encouraging public and private investments to develop infrastructure like cold chains; special attention for north-eastern, eastern and rain-fed states for augmenting scope of access to institutional credit; and rationalisation and targeting of input subsidies towards small and marginal farmers.
- Irrigation: The government wants to ensure that rural India gets investment, public as well as private, to the tune of Rs 25 lakh crore in five years. It also wants to bring one crore hectares of land under micro-irrigation.
- Land consolidation: Reform in land leasing laws to promote land consolidation and contract farming; and accelerating the pace of public investment in agriculture and ensure greater efficiency in capital use.
- Agriculture exports: Agricultural exports are playing an important role in expanding economic activities along with generating employment opportunities.
- Food processing: To invite foreign capital into this industry the Government has permitted 51 per cent foreign equity partnership and also offered prompt approval of foreign technology transfer to the food processing industry of the country.

Long term implications:

- Diversification of agriculture: commercial crops, horticulture, floriculture, aromatic plants, medicinal plants can be grown in large. The demand for these products has been increasing considerably. Thus, there is an ample scope for the development of agricultural sector both in terms of increased production and trade.
- Beneficial to developing countries: The liberalization of agricultural markets will be beneficial to developing countries in the long run; it will force the adoption of new technologies, shift production functions upwards and attract new capital into the deprived sector.
- Investment from other countries: Liberalised economic environment, efficiency and growth orientation will attract maximum attention to invest more from other countries.
- More employment: Increasing potentiality of the agricultural sector as emerged from the liberalisation/globalisation wave has set up new trends in horticultural, floricultural and animal product and has created ample opportunities and scope for employment of huge number of population.
- More subsidies: The volume of subsidies granted to agriculture, in respect of fertiliser, irrigation and electricity charges etc. has been increasing in our country.
- Institutionalization of agricultural credit: The wave of liberalisation has encouraged the institutional agricultural credit. In the initial stage of post-independence period, Indian farmers were depending too much on unorganised sources of agricultural credit, i.e. on village money lenders, landlords, traders etc.

Conclusion

Commerce and industry ministry came out with a blueprint suggesting a host of long and short-term measures to increase the size of India's economy to USD 5 trillion by 2025. Agriculture liberalization helps in increasing the revenue generation thus doubling the farmer's income by 2022 according to ashok dalwai committee.