Liberalization, Privatization, and Globalization

Economic Reforms
These were based on the assumption that market forces would steer the economy into the path of growth and development. Economic reforms started in 1991 in India.

Need for Economic Reforms

- Mounting fiscal deficit
- Adverse balance of payment
- Gulf crisis
- Fall in foreign exchange reserves
- Rise in prices

Liberalization Liberalization of the economy means its freedom from direct or physical controls imposed by the government.

Economic Reforms Under Liberalization
(i) Industrial Sector Reforms

- Abolition of industrial licensing.
- De-reservation of production areas.
- Expansion of production capacity.
- Freedom to import goods.

(ii) Financial Sector Reforms
Liberalization implied a substantial shift in the role of the RBI from a regulator to a facilitator of the financial sector.
(iii) Fiscal Reforms Fiscal reforms relate to revenue and expenditure of the government. Tax reforms are the principal component of fiscal reforms. Broadly taxes are classified

- Direct Taxes and
- Indirect Taxes

(iv) External Sector Reforms It include Foreign exchange reforms and Foreign trade policy reforms.

privatization

Privatization is the general process of involving the private sector in the ownership or operation of a state-owned enterprise.

Disinvestment
It refers to a situation when government sells off a part of its share capital of PSUs to private investors.

Globalization It may be defined as a process associated with increasing openness, growing economic interdependence and deepening economic integration in the world economy.

Policy Strategies Promoting Globalisation of the Indian Economy

- Increase in equity limit of foreign investment
- Partial convertibility
- Long term trade policy
- Reduction in tariffs
- Withdrawal of quantitative restriction

World Trade Organisation (WTO)
The WTO was founded in 1995 as the successor organisation to the general agreement on Trade and Tariff (GATT). GATT was established in 1948 with 23 countries as the global trade organisation.

Positive Impact of the LPG (Liberalisation, Privatisation and Globalisation) Policies

- A vibrant economy
- A stimulant to industrial production
- A cheek on fiscal deficit
- A cheek on inflation
- Consumer’s sovereignty
- Flow of private foreign investment

Negative Impact of LPG (Liberalisation, Privatisation and Globalisation) Policies

- Neglection of agriculture
- Urban concentration of growth process
- Economic colonialism
- Spread of consumerism
- Lopsided growth process
- Cultural erosion

During the tenure of Narasimha Rao Government (1991), India met with an economic crisis relating to its external debt. The government was unable to make repayments on its borrowings from abroad; foreign exchange reserves were not sufficient to repay the debts. The prices of essential goods were rising and the imports were growing at a very high rate.

As a result, the government initiated a new set of policy measures to reform the conditions of an economy and several economic reform programme were also introduced in this respect to promote privatisation, liberalisation and globalisation.

Economic Crisis of 1991 and Indian Economy Reforms
Crisis in India is figured out because of the inefficient management of Indian Economy in 1980s.
The revenues generated by the government were not adequate to meet the growing expenses. So, the government resorted to borrowing to pay for its debts and was caught is a debt-trap.
Deficit it refers to the excess of government expenditure over its revenue.
Causes of Economic Crisis
Different causes of economic crisis are given as under

- The continued spending on development programmes of the government did not generate additional revenue.
- The government was not able to generate sufficient funds from internal sources such as taxation.
- Expenditure on areas like social sector and defence do not provide immediate returns, so there was a need to utilise the rest of its revenue in a highly effective manner, which the government failed to do.
- The income from public sector undertakings was also not very high to meet the growing expenditures.
- Foreign exchange borrowed from other countries and international financial institutions was spent on meeting consumption needs and to make repayments on other loans.
- No effort was made to reduce such increased spending and sufficient attention was not given to boost exports to pay for die growing needs.

Due to above stated reasons, in the late 1980s, government expenditure began to exceed its revenue by such large margins that meeting the expenditure through borrowings became unsustainable.

Need for Economic Reforms
The economic policy followed by the government upto 1990 failed in many aspects and landed the country in an unprecedented economic crisis. The situation was so alarming that India's reserves of foreign exchange were basely enough to pay for two weeks of imports. New loans were not available and NRIs were withdrawing large amounts. There was an erosion of confidence of international investors in the Indian economy.
The following points highlight the need for economic reforms in the country

- Increasing fiscal deficit
- Adverse Balance of Payments
- Gulf crisis
- Rise in prices
- Poor performance of Public Sector Units (PSUs).

- High rate of deficit financing.
- Collapse of soviet block.

Emergence of New Economic Policy (NEP)
Finally, India approached International Bank for Reconstitution and Development, popularly known as World Bank and International Monetary Fund (IMF) and received $ 7 million as loan to manage the crisis. International agencies expected India to liberalise and open up economy by removhfg restrictions on private sector and remove trade restrictions between India and other countries.

India agreed to conditions of World Bank and IMF and had announced New Economic Polity (NEP) which consist of wide range of economic reforms.
The measures adopted in the New Economic Policy can be broadly classified into two groups i.e.,

- Stablisation Measures They are short-term measures which were intended to correct some weakness that have developed in the Balance of Payments and to bring Inflation under control.
- Structural Reforms They are longterm measures, aimed at improving the efficiency of the economy and increasing its international competiveness by removing the rigidities in various segments of the Indian economy.

The various structural reforms are categorised as

- Liberalisation
- Privatisation
- Globalisation

Balance of Payment It is a system of recording country's economic transactions with the rest of the world over a period of one year. Inflation It is a situation in which general price level of goods and services increases in an economy over a period of time.

Liberalist off, Privatisation and Globalisation
By introducing concept of liberalisation, privatisation and globalisation, government have revived the condition of Indian Economy.
Liberalisation
Libralisation was introduced with an aim to put an end to those restrictions which became major hindrances in growth and development of various sectors. It is generally defined as the lossening of government regulations in a country to allow for private sector companies to operate business transactions with fewer ristrictions. In relation to developing countries, this term refers to opening of economic border for multinationals and foreign investment.

Objectives of Liberalisation
The main objectives of liberalisation policy are

- To increase competition among domestic industries.
- To increase foreign capital formation and technology.
- To decrease the debt burden of the country.
- To encourage export and import of goods and services.
- To expand the size of the market.

Economic Reforms Under Liberalisation
Reforms under liberalisation were introduced in many areas. Let us discuss these now
Industrial Sector Reforms
The following steps were taken to deregulate the industrial sector
(i) Abolition of Industrial Licensing Government abolished the licensing requirement of all industries, except for the five industries, which are

- Liquor
- Cigarettes
- Defence equipment
- Industrial explosives
- Dangerous chemicals, chugs and pharmaceuticals.

(ii) Contraction of Public Sector The number of industries reserved for the public sector was reduced from 17 to 8.. Presendy, only three industries are ’ reserved for public sector. They are

- Railways
- Atomic energy
- Defence

(iii) De-reservation of Production Areas The production areas which were earlier reserved for SSI were de-reserved.
(iv) Expansion of Production Capacity The producer’s were allowed to expand their production capacity according to market demand. The need for licensing was abolished.
(v) Freedom to Import Capital Goods The business and production units were given freedom to import capital goods to upgrade their technology.

Financial Sector Reforms
Financial sector includes financial institutions such as commercial banks, investment banks, stock exchange operations and foreign exchange market.
The following reforms were initiated in this sector

- Reducing Various Ratio Statutory Liquidity Ratio (SLR) was lowered from 38.5% to 25%.
  Cash Reserve Ratio (CRR) was lowered from 15% to 4.1%.
- Competition from New Private Sector Banks The banking sector was opened for the private sector. This led to an increase in competition and expansion of services for consumers.
- Change in the Role of RBI RBI's role underwent a change from a 'regulator' to a 'facilitator'.
- De-regulation of Interest Rates Except for savings accounts, banks were able to decide their own interest rates

Tax Reforms/Fiscal Reforms
Tax reforms are concerned with the reforms in government's taxation and public expenditure policies which are collectively known as its fiscal policy.

Moderate and Simplified Tax Structure Prior to 1991, the tax rates in the country were quite high, which led to tax evasion. The fiscal reforms simplified the tax structure and lowered the rates of taxation. This reduced tax-evasion and increased government's revenues.

Foreign Exchange Reforms/External Sector Reforms
External sector reforms include reforms relating to foreign exchange and foreign trade. The following reforms were initiated in this sector
(i) Devaluation of Rupee Devaluation implies a fall in the value of rupee against some foreign currency. In 1991, the rupee was devalued to increase our country's exports and to discourage imports.
(ii) Other Measures

- Import quotas were abolished.
- Policy of import licensing was almost scrapped.
- Import duty was reduced.
- Export duty was completely withdrawn.

World Trade Organisation (WTO)
The WTO was founded in 1995 as the successor organisation to the General Agreement on Trade and Tariff (GATT). GATT was established in 1948 with 23 countries as the global trade organisation to administer all multinational trade agreements by providing equal opportunities to all countries in international market for trading purpose. However this had certain problems hence.

WTO was expected to establish a rule based trading regime in which nations cannot place arbitrary restrictions on trade. Its purpose was mainly to expand production and trade in order to have optimum utilisation of world resources.

The WTO agreements cover {rade in goods as well as services to facilitate international trade through removal of tariff as well as non-tariff barriers and provide

better market access to all countries. Being an important member of WTO. India has been in front to frame rule and regulations and safeguards interest of developing world.
India has kept commitments towards liberalisation of trade in WTO by removing quantitative restrictions on imports and reducing tariff rates.

Functions of WTO

- It facilitates the implementation, administration and operation of the objectives of multilateral trade agreements.
- It administers the ‘trade review mechanism’.
- It administers the ‘understanding rules and procedures , governing the settlement disputes’.
- It is a watchdog of international trade, it examines the trade regimes of individual members.
- Trade disputes that cannot be solved through bilateral talks are forwarded to the WTO dispute settlement ‘court’.
- It is a management consultant for world trade. Its economist keep a close watch on the activities of the global economy and provide studies on the main issues of the day.

Privatisation
It refers to giving greater role to private sector thereby reducing the role of public sector. In other words, it means shedding of the ownership or management of a government owned enterprise.
It may also mean de-reservation of industries previously reserved for public sector.
Government companies (public companies) are converted into private companies in two ways

- By withdrawal of the government from ownership and management of the public sector companies.
- By the method of disinvestment.

Forms of Privatisation
Different forms of privatisation are

- Denationalisation When 100% govermffdht ownership of productive assets is transferred to the private sector, it is called denationalisation. It is also known as strategic sale.
- Partial Privatisation When less than 100% or more than 50% ownership is transferred, it is a case of partial privatisation with private sector owning majority of shares. In this situation, the private sector can claim to possess substantial autonomy in its functioning. It is also known as partial sale.
- Deficit Privatikation/Token Privatisation When the government disinvests its shares to the extent of 5 to 10% to meet the deficit in the budget, this is termed as deficit privatisation or token privatisation.

Objectives of Privatisation
The most common and important objectives of privatisation are

- Improving the financial condition of the government.
- Raising funds through disinvestment.
- Reducing the workload of public sector.
- Increasing the efficiency of the government undertakings.
- Providing better goods and services to consumers.
- Bringing healthy competition within an economy.
- Making way for Foreign Direct Investment (FDI).

Navratnas and Public Enterprise Policies
In order to improve efficiency, infuse professionalism and enable them to compete more effectively in the liberalised global environment, the government identifies PSUs and declare them as maharatnas, navratnas and mininavratnas. 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 mininavratnas.
In 2011, about 90 public enterprises were designated with different status.
A few examples of public enterprises with their status are as follows

- Maharatnas
    - Indian Oil Corporation Limited
    - Steel Authority of India Limited
- Navratnas
    - Bharat Heavy Electricals Limited
    - Mahanagar Telephone Nigam Limited
- Mininavratnas
    - Bharat Sanchar Nigam Limited
    - Airport Authority of India

Globalisation
It means integration of the economy of the'”country with the world economy. Globalisation encourages foreign trade and private and institutional foreign investment.

Globalisation is a complex phenomenon and an outcome of the set of various policies that are aimed at transforming the world towards greater interdependence and integration. Globalisation attempts to establish links in such a way that the happenings in India can be in need by events happening miles away. It is turning the into one whole or creating a borderless world.

Outsourcing
An Outcome of Globalisation
This is one of the important outcome of the globalisauon process. In outsourcing, a company hires regular service from external sources, mosdy from other countries,

which were previously provided internally or from within the country like legal advice, computer service, advertisement, etc. In other words outsourcing means getting a work done on contract from Someone outside.

As a form of economic activity, outsourcing has intensified, in recent times, because of the growth of fast modes of communication particularly the growth of Information Technology (IT).

Many of the services such as voice-based business processes (popularly known as BPO or call centres), record keeping, accountancy, banking services, music recording, film editing, book transcription, clinical advice or even teaching are being outsourced by companies in developed countries to India.

Most multinational corporations and even small companies, are outsourcing their services to India where they can be availed at a cheaper cost with reasonable degree of skill and accuracy. The low wage rates and availability of skilled manpower in India have made it a destination for global outsourcing in the post reform period.

Economic Growth During Reforms
Growth of an economy is measured by the Gross Domestic Product (GDP). The growth of GDP increased from 5.6% during 1980-91 to 8.2% during 2007-2012. Main highlights of economic growth during reforms are given below

- During the reform period, the growth of agriculture has declined. While the industrial sector reported fluctuation, the growth of service sector has gone up. This indicates that the growth is mainly driven by the growth in the service sector.
- The opening up of the economy has led to rapid increase in foreign direct investment and foreign exchange reserves.
  The foreign investment, whiclyincludes 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 is the seventh largest foreign exchange reserve holder in the world.
- India is seen as a successful exporter of auto parts, engineering goods, IT software and textiles in the reform period. Rising prices have also been kept under control.

Failures of Economic Reforms
I- Neglect of Agriculture
There has been deterioration in agricultural growth rate. This deterioration is the root cause of the problem of rural distress that reached crisis in some parts of the country. Economic reforms have not been able to benefit the agricultural sector because

- Public investment in agriculture sector especially in infrastructure which includes irrigation, power, roads, market linkages and research and extension has been reduced in the reform period.
- The removal of fertiliser subsidy has led to increase in the cost of production which has severely affected the small and marginal formers.
- Various policy changes like reduction in import duties on agricultural products, removal of minimum support price and lifting of quantitative restrictions have increased the threat of* international competition to the Indian formers.
- Export-oriented policy strategies in agriculture has been a shift from production for the domestic market towards production for the export market focusing on cash crops in lieu of production of food grains.

II- Uneven Growth in Industrial Sector
Industrial sector registered uneven growth during this period.
This is because of decreasing demand of industrial products due to various reasons

- Cheaper imports have decreased the demand for domestic industrial goods.
- Globalisation created conditions for the free movement of goods and services from foreign countries that adversely affected the local industries and employment opportunities in developing countries.
- There was inadequate investment in infrastructural facilities such as power supply.
- A developing country like India still does not have the access to developed countries markets because of high non-tariff barriers.

Sirdlla Tragedy
Privatisation of power supply in Andhra Pradesh resulted in substantial increase in power-rates, causing many powerlooms to shut down in a small town, Sirdlla.
50 workers committed suicide because of loss in means of livelihood.
II- Other Failures
In addition to the above mentioned failures, the other drawbacks of LPG policy were:

- It led to urban concentration of growth process.
- It encouraged economic colonialism.
- It resulted in the spread of consumerism.
- It led to cultural erosion