

LIBERALISATION, PRIVATISATION AND GLOBALISATION: AN APPRAISAL

Duration – 80 Minutes

OBJECTIVES

- *Student will be able to recall the concepts related to condition of Indian Economic policy.
- *Student will be able to recognize the difficulty faced by the Indian govt in 1991 .
- *Student will be able to understand the different aspects related with the Economy.
- *Student will be able to understand the policies pursued by the Indian govt in India and its implications

LEARNING OUTCOMES

- . After studying this chapter, the learners will understand the background of the reform policies introduced in India in 1991
- . understand the mechanism through which reform policies were introduced
- . comprehend the process of globalisation and its implications for India
- . be aware of the impact of the reform process in various sectors.

TEACHING MATERIAL

- *Power Point Presentation, White Board, Marker.

METHODS OF TEACHING

- *Question Answer Method
- *Group Discussion Method
- *Deductive Method
- *Demonstration Effect

GIST OF LESSON

Economic Scenario in 1991

Since the early days of independence, we were accustomed to a highly protected economy. We protected our economic enterprises, our investment, our currency, our commodity and capital markets, and our trade.

The Indian economy was characterized by large scale investments in the public sector and a comparatively lesser role for the private sector, restriction of foreign direct investment and regulation. The consequences of the pre-reform economic policy were :

- ☐ The high rate of inflation especially sharp rise in the prices of essential goods.
- ☐ Fiscal Deficit (Borrowing requirement of government i.e. excess of the total government budgeted expenditure over government budgeted receipts other than borrowings) was alarmingly high.
- ☐ High level of internal and external debt burden => the government was not able to make repayments on its borrowings from abroad.
- ☐ Unfavourable Balance of payment:- India was facing an adverse balance of payment crisis, import bill was continuously rising along with a fall in export, causing an increase in borrowing requirements and fall in foreign exchange reserve.
- ☐ Very low level of foreign exchange reserve:- **foreign exchange reserves**, which India has to maintain to import petrol and other important items, dropped to levels that were not sufficient for even a fortnight import bill of essential items such as fuel, medicines, food etc.

Roots of all the above consequences were

- ☐ **Inward looking policy:** Our inward-looking focus on industrialisation, the excessive protection to industries through licensing and import tariffs discouraged the competition and efficiency in the economy.

- **Controls and subsidies:** Controls on production, licensing restrictions along with high protective walls had fostered monopolistic trends in our industries also act as a discouragement to invest in innovations, research and development. While subsidies and concessions increased the costs and burden on the exchequer.
- **Red Tapism:** Red Tapism refers to the requirement of excessive procedure, formalities and routine for government official decision. It is dominant in every public sector enterprise, due to this decision-making delayed causing continuation use of obsolete technologies and slow decision-making public-sector productivity were extremely low.

Bailout Package from World Bank

As already mentioned, **foreign exchange reserves**, which India has to maintain to import petrol and other important items, dropped to levels that were not sufficient for even a fortnight import of essentials items.

India approached the **World Bank (also known as IBRD- International Bank for Reconstruction and Development)** and the **International Monetary Fund (IMF)** for the loan to manage its economic crises. World Bank and IMF agree to extend \$7 billion as a loan to manage the economic crisis on certain conditions, which are :

1. To open up the economy by removing restrictions on the private sector (**Privatisation**),
2. To liberalise and reduce the role of the government in many areas (**Liberalisation**) and
3. To remove trade restrictions between India and other countries (**Globalisation**).

New Economy Policy: Liberalisation, Privatisation & Globalisation

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- To remove trade restrictions between India and other countries (**Globalisation**).

India agreed to the conditionalities of the World Bank and IMF and announced the **New Economic Policy (NEP)**.

New Economic policy can broadly be classified into two groups:

1. The stabilisation measures and
2. The structural reform measures.

Stabilisation measures:

Stabilisation measures are short- term measures, with the main objectives:

1. To maintain sufficient foreign exchange reserves,
2. To correct the balance of payments and
3. To check inflation under control.

Structural reform measures:

Structural reform measures are long-term measures, with the main objectives :

1. To improve the efficiency of the economy and
2. To increase its international competitiveness by removing the rigidities in various segments of the Indian economy.

The government initiated a variety of policies which fall under three heads :

1. Liberalisation
2. Privatisation and
3. Globalisation

Liberalisation

Liberalisation means removing all unnecessary controls, regulation and restrictions like permits, licenses, protectionist tariffs, quotas, etc. imposed by the government.

Few liberalisation measures were introduced before 1991, in the 1980s in areas of industrial licensing, export-import policy, technology up-gradation, fiscal policy and foreign investment. However, reform policies initiated in 1991 were more comprehensive Includes:

1. Deregulation of the Industrial Sector,
2. The financial sector,
3. Tax reforms,
4. foreign exchange markets and
5. trade and investment sectors.

Deregulation of the Industrial Sector (Industrial Reforms)

Before deregulation of the Industrial sector:

1. There was the Industrial licensing system, under which every entrepreneur had to get permission from government officials not only to open the production unit but even to increase the production.
2. The private sector was not allowed in many industries
3. Some goods could be produced only in small scale industries and
4. There were controls on price fixation and distribution of selected industrial products.

After the deregulation policies introduced in and after 1991 many of these restrictions had been removed:

1. Industrial licensing was abolished for almost all but product categories — alcohol, cigarettes, hazardous chemicals industrial explosives, electronics, aerospace and drugs and pharmaceuticals.
2. The only industries which are now reserved for the public sector are defence equipment, atomic energy generation and railway transport.
3. Many goods produced by small scale industries have now been de-reserved.
4. In most of the industries, the market has been allowed to determine the prices.

2 Financial Sector Reforms

The financial sector includes financial institutions, such as commercial banks, investment banks, stock exchange operations and foreign exchange market.

In India, the financial sector is regulated by various norms and regulations of the Reserve Bank of India (RBI). During liberalisation, there was a substantial shift in the role of the RBI from ‘a regulator’ to ‘a facilitator’ of the financial sector.

Following are the major reforms in the financial sector:

1. The financial sector allowed to take decisions on many matters without consulting the RBI.
2. Banking Sector opened for the private sector (both Indian and foreign).
3. Foreign investment limit in banks was raised to around 50 per cent
4. Those banks which fulfil certain conditions have been given the freedom to set up new branches without the approval of the RBI
5. Foreign Institutional Investors (FII), such as merchant bankers, mutual funds and pension funds, are now allowed to invest in Indian financial markets.

3 Fiscal Policy Reforms (Tax Reforms)

Fiscal policy is the policy of general govt regarding controlling its public expenditure & public receipts to achieve certain economic objectives such as.

Fiscal policy has two major components:

1. Revenue policy (Taxation policy is the major component of revenue policy of government)

2. Expenditure policy

Fiscal Policy Reforms are mainly associated with the reforms in the Public Receipts policy (mainly the government's taxation policy) and Public Expenditure policies.

The data reveals that fiscal deficit during 1990-91 was as large as 8.4 % of GDP.

Set of reforms were introduced to contain government expenditure and increase public revenues.

Tax Reforms

Tax Revenue: A tax is a compulsory payment made to the government by the people to meet the expenditure incurred on providing common benefits to the people.

Taxes are classified in two main groups (i) direct taxes and (ii) indirect taxes.

Difference between Direct Tax and Indirect Tax

Direct tax	Indirect Tax
1. Direct taxes are those taxes which are imposed on the income & wealth of a person.	1. Indirect taxes are those taxes which are imposed on goods services either at the time of their production, distribution or selling.
2. The person on whom direct tax is imposed not only pays it to the government but also has to bear its burden.	2. Those who pay taxes to the government do not bear the whole burden, and they shifted them wholly or partly to others.
3. Direct taxes are normally progressive.	3. Indirect taxes usually are of proportionate or regressive nature.
4. For example Income Tax, Wealth Tax.	4. For example GST, Excise duty, import duty etc.

Before Liberalisation measures: Rates of both direct and indirect taxes were exceedingly high, and it was considered as the main reason for tax evasion and provided disincentives to honest taxpayers. Filing of tax returns was also overly complicated as there were many compliances.

Tax Reforms :

1. There has been a continuous fall in the taxes on individual incomes since it was felt that high rates of income tax were one of the main reasons for tax evasion.
2. The rate of corporation tax, which was very high earlier, has been gradually reduced.
3. Reforms also take place in indirect taxes, taxes levied on commodities has been reduced and efforts are made to make it uniform to facilitate the establishment of a common national market for goods and commodities.
4. To encourage better compliance on the part of taxpayers, many procedures have been simplified.
5. To simplify and introduce a unified indirect tax system in India, the Parliament of India passed a law, Goods and Services Tax Act 2016, This law came into effect from July 2017. The main objectives of GST are to generate additional revenue for the government, reduce tax evasion and create 'one nation, one tax and one market'.

Reduction in Subsidies: Some of the important policy initiatives introduced for correcting the fiscal imbalance by reducing public expenditure, it includes a reduction in fertilizer subsidy, the abolition of subsidy on sugar.

All the above measures helped to reduce Fiscal deficit significantly which was as high as 8.4 % of GDP before New Economic Policies.

4 Foreign Exchange Reforms

In 1991, India was facing the balance of payments crisis, India's import bill was rising cause an increase in the outflow of foreign exchange and country's export was falling result in fall of foreign exchange. All this led to falling foreign exchange reserve.

To correct the balance of payment crises, the rupee was devalued against foreign currencies as an immediate measure. Due to the Devaluation of Domestic currency, Goods and Services of the country become relatively cheaper for other countries which results in the rise of exports, increasing the inflow of foreign exchange. And for residents of the country, goods and services of other countries become expensive. So, demand for imports fallen down, resulting fall in the outflow of foreign exchange

"Devaluation of currency states the deliberate reduction in currency's value under Fixed Exchange rate system."

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Result: Devaluation of domestic currency helps the countries to increase in their foreign exchange reserve.

Flexible exchange rate method adopted for the determination of the foreign exchange rate, in this market determine exchange rates based on the demand and supply of foreign exchange. It allows automatic adjustment in inflow and outflow of foreign exchange. It reduced the compulsion of maintaining foreign exchange reserve.

5. Trade and Investment Policy Reforms

Before 1991, India followed a protectionist policy to protect domestic industries by quantitative restrictions and high tariffs on imports, import licensing and export duties. This reduced efficiency and competitiveness. It led to very slow growth of industries.

The liberalisation of trade and investment regime was initiated in 1991 with the following objectives:

1. To increase the international competitiveness of industrial production and foreign investment.
2. To increase the international competitiveness of industrial production
3. To increase the flow of foreign investments and new technology into the economy.
4. To promote the efficiency of local industries and the adoption of modern technologies.

In trade policy reforms following measures were taken by the government:

1. Removal of quantitative restrictions on imports and exports
2. Tariff rates reduced significantly.
3. licensing procedures for imports also abolished except in case of hazardous and environmentally sensitive industries.
4. Quantitative restrictions on imports of manufactured consumer goods and agricultural products were also fully removed from April 2001.
5. Export duties have been removed to increase the competitive position of Indian goods in the international markets.

Privatisation

Privatisation is defined as the transfer of a function, activity or organisation from the public to the private sector".

Government companies are converted into private companies in two ways:

- (i) By the withdrawal of the government from ownership and management of public sector companies.
 - ii) By the outright sale of public sector companies.
- Privatisation of the public sector enterprises by selling off part of the equity of PSEs to the public is known as disinvestment.

The main objectives of the privatisation were:

1. To improve financial discipline.
2. To introduce efficiency and profitability in Public Sector Undertakings (PSUs).
3. To facilitate modernisation.
4. To utilise private capital and managerial capabilities effectively to improve the performance of the PSUs.
5. To reduce the budgetary deficit due to loss-making PSUs.
6. To introduce accountability and responsibility in PSUs.

Disinvestment

Disinvestment is the sale of a part of equity holdings held by the government in any public sector undertaking to the private investors. Disinvestment has been a major strategy by which the government can finance its fiscal deficit. Besides financing the fiscal deficit, the economic motivation behind it is to improve the efficiency of PSUs.

Government has been disinvesting by many methods. Two main methods are:

- **Minority sale.** In this method, equity is offered to investors through domestic public issue.
- **Strategic sale.** In this method, the government offloads above 51 per cent stakes of Public Sector undertaking to a private enterprise who control and manage the strategic sale.

Navratnas Policy

In 1996, Government adopted Navratna Policy for profit-making Public Sector Undertakings (PSUs) intending to improve efficiency, infuse professionalism and enable PSUs(public sector undertakings) to compete more effectively in the liberalised global environment.

The government chose nine PSUs and declared them as *navaratnas*. They were given greater managerial and operational autonomy, in taking various decisions to run the company efficiently and thus increase their profits. The government also allowed them to expand themselves in the global markets and raise resources by themselves from financial markets.

Greater operational, financial and managerial autonomy had also been granted to 97 other profit-making enterprises referred to as *mini ratnas*.

The first set of *navaratna* companies included:

1. Indian Oil Corporation Ltd (IOC),
2. Bharat Petroleum Corporation Ltd (BPCL),
3. Hindustan Petroleum Corporation Ltd (HPCL),
4. Oil and Natural Gas Corporation Ltd (ONGC),
5. Steel Authority of India Ltd (SAIL),
6. Indian Petrochemicals Corporation Ltd (IPCL),
7. Bharat Heavy Electricals Ltd (BHEL),
8. National Thermal Power Corporation (NTPC) and
9. Videsh Sanchar Nigam Ltd (VSNL).

Later, two more PSUs—Gas Authority of India Limited (GAIL) and Mahanagar Telephone Nigam Ltd (MTNL)—were also given the same status.

The granting of status resulted in better performance of these companies.

Globalisation

Meaning: Globalisation refers to growing economic interdependence among countries in the world with regard to technology, capital, information, goods, services, etc. The term Globalisation has four parameters:

1. Reduction of trade barriers to permit the free flow of goods and services across national
2. Creation of an environment in which free flow of capital can take Transfer of wealth across national boundaries, particularly financial transfers, is made possible by large organizational network and new electronic technologies.
3. Creation of an environment to allow free flow of technology among the nation
4. Creation of an environment in which free movement of labour can take place in different countries of the world.

Advantages of Globalisation

➤ **Adoption of New, Flexible Production Methods:**

Globalisation raises allocation efficiency, especially in underdeveloped and developing countries by reducing capital-output ratio; Raising labour productivity; Developing export culture; Raising capital flow; Modernizing technology and Increasing the competitive edge of firms.

➤ **Raise Foreign Capital:**

Globalisation attracts foreign capital which led to technological up-gradation.

➤ **Quality Improvement:**

In order to withstand competition offered by other firms, the quality enhancement take place

➤ **Rise in Employment.**

It is expected that integration between different sectors will lead to more production in the home country. This will raise employment opportunities.

➤ **Rise in Banking and Foreign Sector Efficiency:**

Banking and foreign sector of the home country raise their competitive skill and efficiency in order to have a competitive edge over foreign banks.

➤ **Accelerate Human Development**

Education and skill training are the most important components of globalization. Knowledge and technology rule the global market. To face the competition offered by the global market, the quantity and quality of education will improve.

Disadvantages of Globalisation

➤ **The devastation of Local Producers**

Globalisation has devastated local producers since they are unable to compete with cheap imports.

➤ **Mounting Strikes:**

Globalisation has led to mounting workers unrest. Workers have protested against low wages, poor working conditions, autocratic management rule, long working days hours and fall in social benefits

➤ **Public Employees are Worse Off:**

Globalisation has made public employees worse off. Public employees are adversely affected by budget cuts, privatisation, and massive loss of purchasing power.

➤ **Small Businesses are Adversely Affected:**

Small business class are adversely affected by the fall of public subsidies, de-industrialisation and floods of cheap imports.

➤ **The decline in Income:**

During the globalization phase, about half a billion people in South Asia have experienced a decline in

their income. Data shows that it is the poor who have suffered most.

➤ **Raising Depth of Inequality:**

The global village appears deeply divided between the street of the haves and those of the have-nots. The average person in Norway (which has the highest human development) and the average person in countries such as Niger (which has lowest human development) seems like lives different human districts of the global village.

Outsourcing

Outsourcing means obtaining goods and services by contract from an outside source. Especially with the growth of information technology (IT) outsourcing has acquired an international dimension and it has intensified in recent times. The main services which are being outsourced from India by developed countries are voice-based business processes (known as BPO or Call Centres), banking services, railway inquiry, record-keeping, accountancy, music recording, book transcription, clinical advice, teaching etc. Genpact, HCL BOP, Wipro BPO are some topmost companies offering BOP services in India.

India is as the favourite destination for outsourcing.

India can provide a ready supply of skilled people at a relatively lower price.

India has the advantage of time difference as it is located on the other side of the developed countries.

Effects of Outsourcing in India

India is now much more integrated with the world economy. It has benefited from this integration in much ways-another success story is that of IT-enabled services (ITES) It has demonstrated what Indian skills and enterprise can do- given the right environment. India has a 65% share of the global offshore market and a 46% share of the global business process offshoring (BPO) industry.

World Trade Organization (WTO)

The General Agreement on Tariffs and Trade (GATT) was established in Geneva to pursue the objective of free trade in order to help in the growth and development of all member countries. In 1947, 23 countries signed GATT. India was one of the founder members of GATT. In 1994, 118 countries were members of GATT. The main purpose of GATT was to ensure competition in commodity trade by the removal of trade barriers. A preparatory committee was set-up by GATT which in turn set-up the World Trade Organisation (WTO) in 1995. The WTO acts as a permanent watchdog of international trade

Features of WTO

- The WTO is global in it at present there are 153 member countries.
- It has a much wider scope than its predecessor GATT. Each member of WTO has a single voting right.
- It is a full-fledged international organization in its own
- The representatives of the members of WTO enjoy international privileges

Objectives of WTO

- To raise the standard of living in member countries by ensuring full employment and by expanding production and trade in goods and services.
- To develop an integrated, viable and durable multilateral trading system.
- To promote sustainable development in member countries by the optimal use of resources.
- To help the developing countries to get a share in the growth of international trade.
- To reduce tariff and non-tariff barriers and to eliminate discriminatory treatment in international trade relationships.

- To ensure linkages between trade policies, environmental policies and sustainable development

Impact of NEP on India

“ACHIEVEMENTS OF THE POLICY OF LPG”

- **Rise in GDP Growth:** Since the introduction of economic reforms in 1991, the country has shown a rise in the GDP growth rate. In 1991-92, the growth rate of GDP was 1.3%. In the 9th Plan, GDP grew at 5.5% and in 10th Plan at 7.2%. In 2009-10, it grew at 8%.
- **Rise in Foreign Exchange Reserve:** Foreign exchange reserves which were the only US 5.8 billion dollars in 1991 have shown a tremendous rise to US 292.9 billion dollars in 2010-11.
- **Control of Inflation:** The plus point of economic reforms is that it has controlled inflation from 16.8% in 1991 to 11.4% in 2009-10.
- **Rise in Inflow of Foreign Capital:** One of the benefits derived from global integration is the increased inflow of foreign direct investment (FDI). FDI was at US 33.1 billion dollars in 2009-10.
- **Rise in Integration with the World Economy:** India is now much more integrated with the world economy and has benefited from this integration in many ways. The outstanding success of IT and IT-Enables Services (ITES) has shown what Indian skill and enterprise can do – given the right environment
- **Rise in Competitiveness of Industrial Sector:** Sectors such as auto components, textiles and pharmaceuticals are the pillars which show the strength of the industrial sector.

“Challenges of the policy of LPG”

Agricultural There has been a deceleration in agricultural growth. This deceleration is the root cause of the problem of rural distress that reached a crisis in some parts of the country. Farmers find themselves into crippling debt due to low farm incomes combined with low prices of output and lack of credit at reasonable prices. This has led to widespread distress migration.

Economic reforms have not been able to benefit the agricultural sector because:

- Public investment in the agriculture sector, especially in infrastructure which includes irrigation, power, roads, market linkages and research, has been reduced in the reform period.
- Liberalisation has forced the small farmers to compete in a global market where prices of goods have fallen while removal of subsidies has led to an increase in the cost of production. It has made farming more expensive.
- 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 farmers.
- The export-oriented growth has favoured increased production of cash crops rather than food grains. This has increased the prices of food grains.

Changing Employment Pattern. There is the inadequacy of widely dispersed and sustainable off-farm productive employment opportunities. This is a basic cause of most divides and disparities. Growth without jobs can neither be inclusive nor can it bridge divides.

Providing Essential Public Services to be Poor. We cannot be satisfied with only universal primary education – the challenge is to provide universal secondary education as soon as possible. In the area of health, there continues to be a lack of basic services such as the availability of clean drinking water. **Inadequacy of Physical Infrastructure:** Our roads, railways, ports, airports, power supply,

communication are not comparable to the standards prevailing in competitor countries. Quality

infrastructure is still a challenge facing our country today.

Protecting the Environment. Our concern for environmental issues is growing along the lines of global concerns. The threat of climatic changes poses a real challenge to future generations.

Agricultural sector during reforms

During the era of reforms, the agricultural sector was completely neglected and adversely affected mainly due to the following reasons.

i) Reduction in investment in agriculture:

During the reform period, the government decreased the investment in irrigation, power, roads and market linkages. The government of India reduced the subsidy on fertilisers which made farming comparatively costlier. Poor farmers were not able to buy fertilisers without subsidy. This further affected the growth of agriculture.

ii) Significant changes in policies:

After India became a member of the World Trade Organization, there was a significant change in policies. The government reduced the import duty on agricultural products and abolished the minimum support price for agricultural products. Indian farmers faced severe international competition as quantitative restrictions were withdrawn on agricultural products. Thus, the condition of Indian farmers became worse.

iii) Export-oriented policy:

As the government adopted an export-oriented policy in agriculture, there was a drastic shift in the production for the domestic market to the international market. This led to the Commercialisation of agriculture, i.e. production of cash crops instead of food crops which further worsened the situation in the sense that India faced a shortage of food grains.

TEACHER'S ACTIVITY

The topic will be introduced to the Students by asking simple question based on their previous knowledge like-

What is meant by fiscal deficit ?

What is debt trap ?

What is GATT?

What do you know about WTO?

After asking some questions, teacher will explain the concepts and provide them additional knowledge by adopting various teaching methods. Teacher carefully monitors the activity of the student and ask oral questions to access the level of understanding.

STUDENT'S ACTIVITY

Students listen to the introductory remarks by the teacher and answer the questions asked. Student silently and carefully learn the concept with great interest and note the relevant information in their note book.

PROJECT

*Prepare Analysis of Development Experience 1950-90 of Indian Economy.

ASSIGNMENT- Explain liberalisation reforms in industrial sector.

Explain any three objectives of new economic policy"

Describe our achievements/failures in the matter of employment prior to economic reforms?

What do you know by Liberalisation ,Privatisation and Globalisation ? What measures have been taken by Indian economy under the policy of Liberalisation.

“New Economic policy is liberal policy “ State your Comment

Briefly explain any three points of Positive and negative impacts of new economic policy

Explain the concept of outsourcing . What makes India"s a favorite destination of Outsourcing
Why are developed countries opposing it?

What is World Trade Organization? Briefly explain its three functions.

