



INDIAN ECONOMIC DEVELOPMENT

CHAPTER 3rd

LIBERALISATION, PRIVATISATION

AND

GLOBALISATION

: AN APPRAISAL

ECONOMIC REFORM OR ECONOMIC REFORM SINCE 1991

Since 1991, Government of India has introduced diverse economic reform to pull the Country out of economic crisis and to accelerate rate of growth.

OBJECTIVES OF NEW ECONOMIC POLICY

- 1. To reduce the domestic inflation rate**
- 2. To reduce fiscal deficit**
- 3. To improve the balance of Payments situation**
- 4. To encourage foreign Capital investment.**
- 5. To improve "efficiency and productivity of the economy."**
- 6. To put the economy back on the path of sustainable growth with social justice.**

TYPES OF NEW ECONOMIC POLICY MEASURES

The new economic policy measured initiated by the government types: Liberalisation, Privatisations and globalisation.

I LIBERALISATION

Meaning of Liberalisation

An economic policy which gives relaxation to enable entrepreneurs to make their, decisions themselves and open freedom to economic activities at all levels is termed as policy of economic liberalisation.

OBJECTIVES OF LIBERALISATION

- 1. To unshackle the Indian industry from needless control.**
- 2. To provide the rightful control for market mechanism.**
- 3. To get rid of costly delays.**
- 4. To procure variety of goods.**
- 5. To upgrade technology.**
- 6. To develop international competitiveness.**

LIBERALISATION MEASURES

The main areas of liberalisation policy measures were:

1. Industrial Policy Reform

Prior to 1991, the main regulatory mechanisms In India's industrial sector were as follow:

(i) Industrial Licensing was required by a firm to start or close its operations and also to decide the amount of production.

(ii) Some industries were reserved for the public sector only, hence in these industries private sector was not allowed to operate.

(iii) Production of some goods was reserved only for small scale industries.

Thus, industry is operated within the complex system of controls and regulations. Hence India had to give way to liberalisation. Therefore, in pursuance of its liberalisation measures, Government of India announced the New Industrial Policy in 1991. The main industrial reform were as under:

(i) Reduction in industrial licensing: - Industrial licensing abolished for all items except a short list of 5 industries.

These are (a) alcoholic drinks (b) Cigarettes (c) Specific hazardous chemicals (d) industrial explosive (e) electronic aerospace and defense equipment.

(ii) De - reservation of Industries for public sector: - Areas reserved for the public sector are now narrowed down and greater participation by Private sector is permitted.

(iii) Reforms in small scale sector: - Many goods produced by small scale sector have now been dereserved.

(iv) Expansion of production capacity: - What to produce and how much to produce was now a matter of producer's choice depending on market conditions.

(v) Freedom to import Capital goods: - Liberalisation also implied freedom for the industrialist to import capital goods.

2. Financial Sector Reforms

Financial sector includes (i) banking and non-institutions (ii) Stock exchange market and (iii) foreign exchange banking financial market. In India financial sector is regulated and controlled by the RBI. The main aim of financial sector reform is to change role of RBI from regulator to facilitator of financial sector.

3. Trade and Investment Policy Reform

The main aims of new trade policy were to create a free environment for trade, to improve efficiency, to increase foreign investment and technology into the economy. In this regard following measures were adopted.

(i) Abolition of import licensing system except in case of hazardous and which are not environment friendly.

(ii) Removal of quantitative restrictions on imports

(iii) Reduction in tariff rates

(iv) Strengthening the export promotion structure.

4. Tax Reform

Reforms in the form of taxation and public expenditure were also initiated. Main tax reforms are:

(i) Reduction in the rates of income tax and corporate tax so that tax evasion could be reduced.

(ii) Reforms are also made in Indirect taxes.

(iii) Simplification of tax structure

5. Foreign exchange Reforms

In order to overcome balance of payments crisis, an important measures that was adopted was the devaluation of the rupees. Devaluation implies lowering the value of our currency in relation to other currencies of the world.

II PRIVATISATION

Meaning of Privatisation

Privatisation may be defined as transfer of ownership and control from the public sector to the private sector.

Privatisation can take place in two ways

(i) Transfer of ownership and management of public enterprises to the private sector.

(ii) Sale of all or some of the assets of public enterprises.

DISINVESTMENT

The sale of some of the shares of public sector undertaking to the private sector and public at large is known as disinvestment. The Government adopted two method of disinvestment:

(i) Selling of shares in selected PSUs and

(ii) Strategic sale of PSU to private sector Company.

Objectives of Disinvestment

1. To reduce day - to - day interference and to give greater autonomy to the PSUs for their management.

2. To reduce public debt.

3. Modernisation and upgradation to increase efficiency and competitiveness of PSUs.

4. To reduce losses.

Argument in favour of Privatisation

- 1. Privatisation implies supremacy of 'self-interest' over social interest.**
- 2. Privatisation promotes diversification of the production.**
- 3. Privatisation promotes consumers sovereignty.**

Argument against Privatisation

- 1. Socialistic pattern of the society loses its practical validity once PSUs are sold off to the private players.**
- 2. Privatisation encourages the free play of market forces.**

Measures of Privatisation

- 1. Contraction of public sector.**
- 2. Disinvestment of government's share capital in public sector undertakings.**
- 3. Selling off shares of public sector.**

Policy of Navratna

The government has decided to give special treatment to some of the important profit making PSUs and they were given the status of Navratnas: Presently there are 9 Navratnas. These Navratnas are:

- (i) Bharat Heavy Electrical Ltd. (BHEL)**
- (ii) Bharat Petroleum Corporation Ltd (BPCL)**
- (iii) Hindustan Petroleum Corporation Ltd (HPCL)**
- (iv) Gas Authority of India Ltd (GAIL)**
- (v) Indian oil Corporation (IOC)**
- (vi) Mahanagar Telephone Nigam Ltd (MTNL)**
- (vii) National Thermal Power Corporation (NTPC)**
- (viii) Oil and Natural Gas Corporation (ONGC)**
- (ix) Steel Authority of India Ltd (SAIL).**

Apart from it, a new category of mini- ratnas was also identified.

Presently, there are 45 mini- ratnas.

GLOBALISATION

Meaning of Globalisation

Globalisation means integrating the economy of a country with the economies of other countries under condition of free flow of trade and capital and movement of persons across borders. In short,

Globalisation means the integration of domestic economy with rest of the world through trade, capital and technology flows.

COMPONENTS OF GLOBALISATION

- 1. Reduction of trade barriers.**
- 2. No restriction on foreign investment.**
- 3. Free flow of technology and**
- 4. Free movement of labour among different countries of the world.**

CAUSES OF GLOBALISATION

- 1. The rapid improvement in communication media and information technology.**
- 2. Rapid growth of research and development.**
- 3. Free movement of investment over the greater part of the world.**
- 4. Increased Cooperation of different economies of the world.**

Argument in favour of globalisation

1 Globalisation can be bring wealth to some of world's poor.

2. Globalisation can bring world peace.

3. Globalisation could help to protect the environment.

4. Globalization includes higher jobs.

Argument against Globalisation

1. Globalisation has led to greater disparity in wealth.

2. Small local companies cannot compete against such large companies.

3. Globalisation is also leading to homogeneity of a world cultures.

OUTSOURCING

Outsourcing implies obtaining goods or services by contract from an outside source. This is one of the important outcomes of the globalisation process.

WORLD TRADE ORGANISATION

The World Trade Organisation was established on 1 Jan 1995 after the Conclusion of Uruguay round, as the successor to the GATT (General agreement on Tariff and Trade) which was established in 1947. India was is a founder member of both GATT and its successor organisation. The Head office of the World Trade Organisation is located in Geneva.

OBJECTIVES OF WTO

1. Increase of world production by ensuring full employment in the participating nations.

2. Expansion of international trade.

3. Development and full utilisation of world resources.

4. To protect the environment.

5. Reduction of tariff and non - tariff barriers to trade.

6. To eliminate discrimination in international member among countries.

7. To resolve trade disputes among member countries.

FUNCTION OF WTO

1. Acting as a forum for multilateral trade negotiation.

- 2. To resolve trade disputes among member countries.**
- 3. To protect and escorts the environment.**
- 4. Optimum utilisation of world resources.**
- 5. To co - operate with institution involved in economic policy making.**
- 6. To oversee nations trade policy.**

FEATURES OF WORLD TRADE ORGANISATION

- 1. The WTO is the main organ implementing the multilateral Trade agreement.**
- 2. WTO is global in its membership.**
- 3. It is the forum for negotiation among its member.**
- 4. It is a full-fledged international organisation in its own right.**
- 5. The WTO has legal personality.**