Commerce CLASSES

# Economics Notes PDF

# On

# Liberalisation, Privatisation and Globalisation: An Appraisal

## (Class – 12)

**Economic Policy of 1991**

- In 1991, in an attempt to battle the severe economic crisis, the Government of India initiated a series of economic reforms called the New Economic Policy.
- India announced the New Economic Policy (NEP) subject to the conditionalities of the World Bank and IMF. Broad classification of this policy is:
    - **Stabilisation measures:** These were the short term measures to correct issues such as inflation, and deficit in balance of payments.
    - **Structural reform measures:** These were long term measures that focused upon enhancing the international competitiveness, and efficiency of the economy.
- The three major components of this policy were:
    - Liberalisation
    - Privatisation
    - Globalisation.

**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

**LIBERALISATION**

Liberalisation of the economy means its freedom from direct or physical controls imposed by the government.
Economic Reforms Under Liberalisation

**(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:**

Liberalisation 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
- Indirect Taxes

**Foreign Exchange Reforms:** In 1991, the Indian rupee was devalued against foreign currencies to fix the balance of payment imbalance. Followed by the devaluation, the exchange value of the Indian rupee in the international money market was left to the free play of market forces.

## PRIVATISATION

- It refers to the process of involving the private sector in the ownership of the state-owned enterprise.
- The transfer of government ownership to the public sector can take place in two ways:
    - **a.** Outright sale of the government enterprises to private entrepreneurs
    - **b.** Withdrawal of government ownership and management from the mixed enterprises.
- Disinvestment is also a type of privatisation where the government sells off a part of its share of the capital of PSUs to private investors.

**Strategies Adopted for Privatisation:**

- **Providing a strong impetus for FDI inflows:** Privatisation strives to provide a solid foundation for FDI inflows. Increased FDI inflows strengthen the economy's financial position.
- **Increasing the efficiency of public-sector endeavours (PSUs):** Giving PSUs decision-making authority increases their efficiency. Some businesses were accorded the Navratna and Miniratna designations.

## GLOBALISATION

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 to administer all multinational trade agreements by providing equal opportunities to all countries in the international market for trading purposes. 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.

## ASSESSMENT OF LPG POLICIES

**MERITS:**

**A. Growth:** The Indian economy has become a more vibrant economy. The overall level of economic activity has trended up as indicated by an impressive increase in the growth rate of GDP. Following the implementation of LPG policy, GDP growth reached as high as 8% per year.

**B. Rise in FDI:** There has been a substantial rise in foreign direct investment (FDI) and foreign institutional investment (FII). The foreign exchange reserves have also shown considerable growth. As a result, India is now one of the largest foreign exchange reserve holders in the world.

**C. Increased Exports:** India has emerged as a leading exporter of a variety of goods like auto parts, pharmaceutical goods, engineering goods, IT software and textiles.

**D. A check on Inflation:** Owing to a greater flow of goods and services in the economy, LPG policies brought a check on inflation.

**DEMERITS:**

**A. Unemployment:** The growth-led reforms failed to generate sufficient employment opportunities in the country.
**B. Reforms in Agriculture:** The growth of GDP has primarily been triggered by the growth of secondary and tertiary sectors. The agricultural sector has suffered serious neglect and its growth rate has depleted to a miserably low level. As a result, India is experiencing a growing disparity between its rural and urban economies.
**C. Reforms in Industry:** Due to decreasing demand for industrial products, industrial growth has recorded a slowdown. The decreasing demand can be due to cheaper imports, inadequate investment in infrastructure, etc. The opening up of the economy has imposed increasing competition from imports on domestic manufacturers and the infrastructure remains inadequate.
**D. Disinvestment:** There has been a substantial loss to the government and the outright sale of public assets because the assets of PSUs have been undervalued and sold to the private sector. Instead of being used to develop the social infrastructure of the country, the proceeds from the sale of such assets are used to offset the shortage of government revenues.
**E. Reforms and Fiscal Policies:** The growth of public sector expenditures has been limited by economic reforms, especially in the social sectors. The tax reductions were expected to curb tax evasion and increase government revenue, but no increase in tax revenue was witnessed. To entice foreign investment, tax breaks were offered to international investors. This further reduced the scope for increasing tax revenue.

**CONCLUSION:**

The process of globalisation through liberalisation and privatisation policies has produced positive as well as negative results both for India and other countries. Some scholars argue that globalisation should be seen as an opportunity in terms of greater access to global markets, high technology and increased possibility of large industries of developing countries to become important players in the international arena. Further, it has increased the income and quality of consumption of only high-income groups and the growth has been concentrated only in some select areas in the services sector such as telecommunication, information technology, finance, entertainment, travel and hospitality services, real estate and trade, rather than vital sectors such as agriculture and industry which provide livelihoods to millions of people in the country.