

CONCEPT OF LIBERALIZATION, PRIVATIZATION **AND GLOBALIZATION**

Unit structure

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9.0 OBJECTIVES

1. To understand the concepts of liberalization, privatization and globalization
2. To study the growth of information technology and communication and its impact manifested in everyday life.
3. To examine impact of globalization on industry; changes in employment and increasing migration.
4. To bring out the changes in the agrarian sector due to globalization; rise in corporate farming and increase in farmer's suicides.

9.1 CONCEPT OF LIBERALIZATION

Globalization and privatization have become the buzzwords in the current economic scenario. The concepts of liberalization,

globalization and privatization are actually closely related to one another. This LPG phenomenon was first initiated in the Indian Economy in 1990 when the Indian Economy experienced a severe crisis. There was decline in the country's export earnings, national income and industrial output. The government had to seek aid from IMF to resolve its debt problem. That is when the government decided to introduce the New Industrial Policy (NIP) in 1991 to start liberalizing the Indian economy.

Liberalization means elimination of state control over economic activities. It implies greater autonomy to the business enterprises in decision-making and removal of government interference. It was believed that the market forces of demand and supply would automatically operate to bring about greater efficiency and the economy would recover. This was to be done internally by introducing reforms in the real and financial sectors of the economy and externally by relaxing state control on foreign investments and trade.

With the NIP' 1991 the Indian Government aimed at integrating the country's economy with the world economy, improving the efficiency and productivity of the public sector. For attaining this objective, existing government regulations and restrictions on industry were removed. The major aspects of liberalization in India were ;

1.Abolition of licensing : NIP' 1991 abolished licensing for most industries except 6 industries of strategic significance. They include alcohol, cigarettes, industrial explosives, defense products ,drugs and pharmaceuticals, hazardous chemicals and certain others reserved for the public sector. This would encourage setting up of new industries and shift focus to productive activities.

2.Liberalization of Foreign Investment : While earlier prior approval was required by foreign companies, now automatic approvals were given for Foreign Direct Investment (FDI) to flow into the country. A list of high-priority and investment-intensive industries were delicensed and could invite up to 100% FDI including sectors such as hotel and tourism, infrastructure, software development .etc. Use of foreign brand name or trade mark was permitted for sale of goods.

3.Relaxation of Locational Restrictions : There was no requirement anymore for obtaining approval from the Central Government for setting up industries anywhere in the country except those specified under compulsory licensing or in cities with population exceeding 1 million. Polluting industries were required to be located 25 kms away from the city peripheries if the city population was greater than 1 million.

4.Liberalization of Foreign Technology imports : In projects where imported capital goods are required, automatic license would be given for foreign technology imports up to 2 million US dollars. No permissions would be required for hiring foreign technicians and foreign testing of indigenously developed technologies.

5.Phased Manufacturing Programmes :Under PMP any enterprise had to progressively substitute imported inputs, components with domestically produced inputs under local content policy. However NIP' 1991 abolished PMP for all industrial enterprises. Foreign Investment Promotion Board (FIPB) was set up to speed up approval for foreign investment proposals.

6.Public Sector Reforms : Greater autonomy was given to the PSUs (Public Sector Units) through the MOUs (Memorandum of Understanding) restricting interference of the government officials and allowing their managements greater freedom in decision-making.

7.MRTP Act : The Industrial Policy 1991 restructured the Monopolies and Restrictive Trade Practises Act. Regulations relating to concentration of economic power, pre-entry restrictions for setting up new enterprises, expansion of existing businesses, mergers and acquisitions .etc. have been abolished.

9.2 CONCEPT OF PRIVATIZATION

Privatization is closely associated with the phenomena of globalization and liberalization. Privatization is the transfer of control of ownership of economic resources from the public sector to the private sector. It means a decline in the role of the public sector as there is a shift in the property rights from the state to private ownership. The public sector had been experiencing various problems , since planning, such as low efficiency and profitability, mounting losses, excessive political interference, lack of autonomy, labour problems and delays in completion of projects. Hence to remedy this situation with Introduction of NIP' 1991 privatization was also initiated into the Indian economy. Another term for privatization is Disinvestment. The objectives of disinvestment were to raise resources through sale of PSUs to be directed towards social welfare expenditures, raising efficiency of PSUs through increased competition, increasing consumer satisfaction with better quality goods and services, upgrading technology and most importantly removing political interference.

The main aspects of privatization in India are as follows;

1.Autonomy to Public sector : Greater autonomy was granted to nine PSUs referred to as 'navaratnas' (ONGC, HPCL, BPCL, VSNL, BHEL) to take their own decisions.

2. Dereservation of Public Sector : The number of industries reserved for the public sector were reduced in a phased manner from 17 to 8 and then to only 3 including Railways, Atomic energy, Specified minerals. This has opened more areas of investment for the private sector and increased competition for the public sector forcing greater accountability and efficiency.

3. Disinvestment Policies : Till 1999-2000 disinvestment was done basically through sale of minority shares but since then the government has undertaken strategic sale of its equity to the private sector handing over complete management control such as in the case of VSNL , BALCO .etc.

9.3 CONCEPT OF GLOBALIZATION

Globalization essentially means integration of the national economy with the world economy. It implies a free flow of information, ideas, technology, goods and services, capital and even people across different countries and societies. It increases connectivity between different markets in the form of trade, investments and cultural exchanges.

The concept of globalization has been explained by the IMF (International Monetary Fund) as ‘the growing economic interdependence of countries worldwide through increasing volume and variety of cross border transactions in goods and services and of international capital flows and also through the more rapid and widespread diffusion of technology.’

The phenomenon of globalization caught momentum in India in 1990s with reforms in all the sectors of the economy. The main elements of globalization were;

1. To open the domestic markets for inflow of foreign goods, India reduced customs duties on imports. The general customs duty on most goods was reduced to only 10% and import licensing has been almost abolished. Tariff barriers have also been slashed significantly to encourage trade volume to rise in keeping with the World trade Organization (WTO) order under (GATT)General Agreement on Tariff and Trade.
2. The amount of foreign capital in a country is a good indicator of globalization and growth. The FDI policy of the GOI encouraged the inflow of fresh foreign capital by allowing 100 % foreign equity in certain projects under the automatic route. NRIs and OCBs (Overseas Corporate Bodies) may invest up to 100 % capital with repatriability in high priority industries. MNCs and TNCs were encouraged to establish themselves in Indian markets and were given a level playing field to compete with Indian enterprises.

3. Foreign Exchange Regulation Act (FERA) was liberalized in 1993 and later Foreign Exchange Management Act (FEMA) 1999 was passed to enable foreign currency transactions.
4. India signed many agreements with the WTO affirming its commitment to liberalize trade such as TRIPs (Trade Related Intellectual Property Rights), TRIMs (Trade Related Investment Measures) and AOA (Agreement On Agriculture).

9.3.1 Impact of Globalization:

Advantages of Globalization:

- There is a decline in the number of people living below the poverty line in developing countries due to increased investments, trade and rising employment opportunities.
- There is an improvement in various economic indicators of the LDCs (Less Developed Countries) such as employment, life expectancy, literacy rates, per capita consumption etc.
- Free flow of capital and technology enables developing countries to speed up the process of industrialization and lay the path for faster economic progress.
- Products of superior quality are available in the market due to increased competition, efficiency and productivity of the businesses and this leads to increased consumer satisfaction.
- Free flow of finance enable the banking and financial institutions in a country to fulfill financial requirements through internet and electronic transfers easily and help businesses to flourish.
- MNCs bring with them foreign capital, technology, know-how, machines, technical and managerial skills which can be used for the development of the host nation.

Disadvantages of Globalisation:

- Domestic companies are unable to withstand competition from efficient MNCs which have flooded Indian markets since their liberalized entry. It may lead to shut down of operations, pink slips and downsizing. Moreover skilled and efficient labour get absorbed by these MNCs that offer higher pay and incentives leaving unskilled labour for employment in the domestic industries. Thus there may be unemployment and underemployment.
- Payment of dividends, royalties and repatriation has in fact led to a rise in the outflow of foreign capital.

- With increased dependence on foreign technology, development of indigenous technology has taken a backseat and domestic R and D development has suffered.
- Globalization poses certain risks for any country in the form of business cycles, fluctuations in international prices, specialization in few exportables and so on.
- It increases the disparities in the incomes of the rich and poor, developed nations and LDCs. It leads to commercial imperialism as the richer nations tend to exploit the resources of the poorer nations.
- Globalization leads to fusion of cultures and inter-mingling of societies to such an extent that there may be a loss of identities and traditional values. It gives rise to mindless copying of western lifestyles and mannerisms however ill-suited they may be.
- It leads to overcrowding of cities and puts pressure on the amenities and facilities available in urban areas.