Contact no: 9801156428

Email Id: amitsahara77@gmail.com

Amit kumar Gupta
Programme- Master in social work
PG Department of Sociology
Patna University , Patna

UNIT 5

Emerging Trends of Globalization, privatization and Liberalization

Core course-CC6-Human and Social Development
1. Learning Objective
2. Introduction
3. Emerging Trends of Globalization, Privatization and Liberalization (LPG)
4. Summary

1. Learning Objective:

After studying this Unit, the learners will

- Understand the meaning of Liberalisation, Privatisation, and Liberalisation
- comprehend the process of globalisation and its implications for India.
- Understand the emerging trends of LPG.

2.Introduction

The government of India has adopted the policy of the liberalization, privatization, and globalization since 1990-91. This is commonly known as policy of Liberalization, Globalization and Privatization. Before this policy Indian economy was passing through many crises. The Gross Domestic Products had considerably gone down, the overall production was showing decline over a long period. Even shortage of foreign exchange reserve and the growth of employment had considerably gone down. This was due to conservative policy adopted by government of India. Many

restrictions, rules and regulation were imposed on industrial sector too. There was no free trade on international level.
India approached the International Bank for Reconstruction and Development (IBRD), popularly known as World Bank and the International Monetary Fund (IMF), and received $7 billion as loan to manage the crisis. For availing the loan, these international agencies expected India to liberalise and open up the economy by removing restrictions on the private sector, reduce the role of the government in many areas and remove trade restrictions between India and other countries.

India agreed to the conditionalities of World Bank and IMF and announced the New Economic Policy (NEP). The government initiated a variety of policies which fall under three heads viz., liberalisation, privatisation and globalisation.

3.Emerging Trends of Globalization, Privatization and Liberalization

3.1 Liberalisation:

As pointed out in the beginning, rules and laws which were aimed at regulating the economic activities became major hindrances in growth and development. Liberalisation was introduced to put an end to these restrictions and open up various sectors of the economy.

Deregulation of Industrial Sector:

In India, regulatory mechanisms were enforced in various ways :

(i) industrial licensingunder which every entrepreneur had to get permission from government officials to start a firm, close a firm or to decide the amount of goods that could be produced

(ii) private sector was not allowed in many industries

(iii) some goods could be produced only in small scale industries and

(iv) controls on price fixation and distribution of selected industrial products.

The reform policies introduced in and after 1991 removed many of these restrictions. Industrial licensing was abolished for almost all but product categories — alcohol, cigarettes, hazardous chemicals, industrial explosives, electronics, aerospace and drugs and pharmaceuticals. The only industries which are now reserved for the public sector are defence equipments, atomic energy generation and railway transport. Many goods produced by small scale industries have now been dereserved. In many industries, the market has been allowed to determine the prices.

Financial Sector Reforms:

Financial sector includes financial institutions such as commercial banks, investment banks, stock exchange operations and foreign exchange market. The financial sector in India is regulated by the Reserve Bank of India (RBI).

One of the major aims of financial sector reforms is to reduce the role of RBI from regulator to facilitator of financial sector. This means that the financial sector may be allowed to take decisions on many matters without consulting the RBI.

Tax Reforms: Tax reforms are concerned with the reforms in government’s taxation and public expenditure policies which are collectively known as its fiscal policy. It is now widely accepted that moderate rates of income tax encourage savings and voluntary disclosure of income.

Foreign Exchange Reforms: The first important reform in the external sector was made in the foreign exchange market. In 1991, as an immediate measure to resolve the balance of payments crisis, the rupee was devalued against foreign currencies.

Trade and Investment Policy Reforms: Liberalisation of trade and investment regime was initiated to increase international competitiveness of industrial production and also foreign investments and technology into the economy. The aim was also to promote the efficiency of the local industries and the adoption of modern technologies.

The aims of liberalization:

The principle aims are enumerated as below.

1. To improve the quality of good services,

2. To increase the employment

3. To create opportunities

4. To join in the competition of the international level

5. To develop the production-capacity

6. To improve the process of domestic production.

3.2 PRIVATISATION

It implies shedding of the ownership or management of a government owned enterprise. Government companies are converted into private companies in two ways

(i) by withdrawal of the government from ownership and management of public sector companies and or

(ii) by 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 purpose of the sale, according to the government, was mainly to improve financial discipline and facilitate modernisation. It was also envisaged that private capital and managerial capabilities could be effectively utilised to improve the performance of the PSUs.

The government envisaged that privatisation could provide strong impetus to the inflow of FDI. The government has also made attempts to improve the efficiency of PSUs by giving them autonomy in taking managerial decisions. For instance, some PSUs have been granted special status as maharatnas, navratnas and miniratnas.

3.2.1 Privatization in India:

Privatization process is being done speedily. Privatization by the way of sale of public sector enterprises is almost negligible while divestment is also existent by way of selling of a portion of shares in the 31 public sector enterprises. Privatization got tremendous boost by the introduction of new economic policy in 1991 that allowed relaxing entry restrictions and equity funding. This heightened the competition in the industries that were monopolized by the public sector earlier. State owned enterprises were lacking the diplomacy that private enterprises employed as the competitive edge. Deregulation in India was facilitated by laws like the Industries (Development & Regulation) Act, 1951 (IDRA), Monopolies & Restrictive Trade Practices Act, 1969, (MRTPA), Foreign Exchange regulation Act, 1973 (FERA), Capital Issues Control and technical scrutiny by the Directorate General of Technical Development (DGTD). Postindependence, the Indian government adopted socialistic economic strategies. It was in 1980s, that Rajiv Gandhi initiated economic restructuring. With the help of IMF, Indian government commenced a sequential economic reorganization. P.V. Narasimha Rao brought in the revolutionary economic developments with the help of Dr. Manmohan Singh. The results of these reforms can be assessed statistically by comparing the total overseas investment in terms of portfolio investment, FDI and investments from foreign equity capital markets. In 1995-1996, it was $5.3 billion as compared to $ 132 million in 1991-1992. The highlights of the reforms including eradicating license raj for all except 18 critical sectors for licensing; tempering the control on industries; Foreign Technology Agreements; FDI & FII; amendment of MRTP Act, 1969; Deregulation; Regulation of Inflation; Tax restructuring; encouraging overseas business relations . Few examples of privatization in India are Lagan Jute Machinery 9 Company Limited, Modern Food Industries Limited, BALCO, Hotel Corporation of India Limited, Hindustan Zinc Limited, Paradeep Phosphates Limited, BSNL etc.

3.3 GLOBALISATION :

Although globalisation is generally understood to mean integration of the economy of the country with the world economy, it is a complex phenomenon. It is an outcome of the set of various policies that are aimed at transforming the world towards greater interdependence and integration. It involves creation of networks and activities transcending economic, social and geographical boundaries. Globalisation attempts to establish links in such a way that the happenings in India can be influenced by events happening miles away. It is turning the world into one whole or creating a borderless world.

3.3.1 Outsourcing: This is one of the important outcomes of the globalisation process. In outsourcing, a company hires regular service from external sources, mostly from other countries, which was previously provided internally or from within the country (like legal advice, computer service, advertisement, security — each provided by respective departments of the company). 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. With the help of modern telecommunication links including the Internet, the text, voice and visual data in respect of these services is digitised and transmitted in real time over continents and national boundaries. 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.

4. Summary:

- The economy was facing problems of declining foreign exchange, growing imports without matching rise in exports and high inflation. India changed its economic policies in 1991 due to a financial crisis and pressure from international organisations like the World Bank and IMF.
- In the domestic economy, major reforms were undertaken in the industrial and financial sectors. Major external sector reforms included foreign exchange deregulations and import liberalisation.
- With a view to improving the performance of the public sector, there was a consensus on reducing its role and opening it up to the private sector. This was done through disinvestment and liberalisation measures.
- Globalisation is the outcome of the policies of liberalisation and privatisation. It means an integration of the economy of the country with the world economy.
- Outsourcing is an emerging business activity.

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.