

Liberalization, Privatisation and Globalisation!

INTRODUCTION

- Economic environment is also called business environment and are used interchangeably. In order to solve the economic problem of our country, the government has taken several steps including control by the State of certain industries, central planning and reduced importance of the private sector.
- **Accordingly, the main objectives of India's development plans set were to:**

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- a. Initiate rapid economic growth to raise the standard of living, reduce the widespread unemployment and poverty stalking the land;
- b. Become self-reliant and set up a strong industrial base with emphasis on heavy and basic industries;
- c. Achieve balanced regional development by establishing industries across the country;
- d. Reduce inequalities of income and wealth;
- e. Adopt a socialist pattern of development — based on equality and prevent exploitation of man by man.

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- With the above objectives in view, the Government of India as a part of economic reforms announced a new industrial policy in July 1991.
- **The broad features of this policy were as follows:**
- 1. The Government reduced the number of industries under compulsory licensing to six only.
- 2. Disinvestment was carried out in case of many public sector industrial enterprises.

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- 3. Policy towards foreign capital was liberalized. The share of foreign equity participation was increased and in many activities 100 per cent Foreign Direct Investment (FDI) was permitted.
- 4. Automatic permission was now granted for technology agreements with foreign companies.
- 5. Foreign Investment Promotion Board (FIPB) was set up to promote and channelise foreign investment in India.

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- There were three major initiatives taken by the Government of India to introduce the much debated and discussed economic reforms to transform Indian economy from closed to open market economy.
- These are generally abbreviated as LPG, i.e. Liberalization, Privatization and Globalization.

Liberalization:

- Liberalizations mean looseness in the rule and regulations.
- When Govt. removes the restrictions from the fields of production exchange and distribution through its industrial export-import and taxation policies, it is called the Policy of liberalization

Features

- 1. lessened govt. control & freelance to private enterprises
- 2. Simplification of licensing policy
- 3. Capital markets opened for private entrepreneurs
- 4. Opportunity to purchase foreign exchange at market prices
- 5. Right to take independent decisions regarding the market

- 6. Better opportunity for Competition
- 7. Widened liberty in the realm of business and trade
- **Gains:** Free movement of goods and services
- . Better industrial performances
- Increase in export
- reduction of Inflation
- Bank interest came down

- Deficiencies:-beneficial for rich & big business firms
- Costly experiment for the small scale industries
- Harmful to the interest of agriculturists

Privatization

- it is the process of transferring **ownership** of a business, enterprise, agency, public service, or public property from the public sector (a government) to the private sector, either to a business that operates for profit or to a nonprofit organization.
- It may also mean the government outsourcing of services or functions to private firms, for example, revenue collection, law enforcement, and prison management

- Privatization can refer to the act of transferring ownership of specified property or business operations from a government organization to a [privately owned](#) entity, as well as the transition of ownership from a publicly traded, or owned, company to a privately owned company.
- For a company to be considered privately owned, it cannot secure funding through public [trades](#) on a stock exchange.

Objectives

- 1. improving industrial efficiency and to facilitate the inflow of foreign investments
- 2. efficient utilisation of all types of resources
- 3. Make the PSUs strong, and efficient companies
- 4. Govt. to concentrate on education, administration and infrastructure

Arguments favouring Privatisation

- 1. necessary to revitalise state owned enterprises
- 2.to face global competition
- 3.to create more employment opportunities
- 4.mobilising & investing resoures
- Recognition of talents &good performance of work

Arguments against pvtsn

- 1. Profitability is not the only yardstick of efficiency
- 2. Role of Public sector cannot be underevaluated
- 3.lack of protection of the interest of the weaker sections
- 4.Private sector is not always efficient

GLOBALISATION

- Launched in the decades of 1980s & 1990s
- **GLOBAL VILLAGE**
- The term *globalization* is derived from the word *globalize*, which refers to the emergence of an international network of economic systems
- Sociologists Martin Albrow and Elizabeth King define globalization as "all those processes by which the peoples of the world are incorporated into a single world society."

- **Meaning:**
- By the term globalisation we mean opening up of the economy for world market by attaining international competitiveness.
- Thus the globalisation of the economy simply indicates interaction of the country relating to production, trading and financial transactions with the developed industrialized countries of the world.

- [Anthony Giddens](#) writes: "Globalization can thus be defined as the intensification of worldwide [social relations](#) which link distant localities in such a way that local happenings are shaped by events occurring many miles away and vice versa
- INTEGRATING THE ECONOMY OF A COUNTRY WITH THE WORLD ECONOMY(Misra & Puri)

- GLOBALISATION REFERS TO A PROCESS OF INCREASING ECONOMIC INTEGRATION AND GROWING ECONOMIC INDEPENDENCE BETWEEN COUNTRIES IN THE WORLD ECONOMY

globalisation has four parameters:

- (a) Permitting free flow of goods by removing or reducing trade barriers between the countries,
- b) Creating environment for flow of capital between the countries,
- (c) Allowing free flow in technology transfer and
- (d) Creating environment for free movement of labour between the countries of the world. Thus taking the entire world as global village, all the four components are equally important for attaining a smooth path for globalisation.

- The concept of Globalisation by integrating nation states within the frame work of World Trade Organisation (WTO) is an alternative version of the 'Theory of Comparative Cost Advantage' propagated by the classical economists for assuming unrestricted flow of goods between the countries for mutual benefit, especially from Great Britain to other less developed countries or to their colonies.

- In this way, the imperialist nations gained much at the cost of the colonial countries who had to suffer from the scar of stagnation and poverty.
- But the advocates of the policy of globalisation argue that globalisation would help the underdeveloped and developing countries to improve their competitive strength and attain higher growth rates.
- Now it is to be seen how far the developing countries would gain by adopting the path of globalisation in future.

- In the mean time, various countries of the world have adopted the policy of globalisation. Following the same path India had also adopted the same policy since 1991 and started the process of dismantling trade barriers along with abolishing quantitative restrictions (QRs) phase-wise.
- Accordingly, the Government of India has been reducing the peak rate of customs duty in its subsequent budgets and removed QRs on the remaining 715 items in the EXIM Policy 2001-2002. All these have resulted open access to new markets and new technology for the country.

Advantages of Globalisation:

- i) Globalisation helps to boost the long run average growth rate of the economy of the country through:
 - (a) Improvement in the allocative efficiency of resources;
 - (b) Increase in labour productivity; and
 - (c) Reduction in capital-output ratio.

- (ii) Globalisation paves the way for removing inefficiency in production system. Prolonged protective scenario in the absence of globalisation makes the production system careless about cost effectiveness which can be attained by following the policy of globalisation.
- (iii) Globalisation attracts entry of foreign capital along with foreign updated technology which improves the quality of production.
- (iv) Globalisation usually restructure production and trade pattern favouring labour-intensive goods and labour-intensive techniques as well as expansion of trade in services.

- (v) In a globalized scenario, domestic industries of developing country become conscious about price reduction and quality improvement to their products so as to face foreign competition.
- (vi) Globalisation discourages uneconomic import substitution and favour cheaper imports of capital goods which reduces capital-output ratio in manufacturing industries. Cost effectiveness and price reduction of manufactured commodities will improve the terms of trade in favour of agriculture.

- (vii) Globalisation facilitates consumer goods industries to expand faster to meet growing demand for these consumer goods which would result faster expansion of employment opportunities over a period of time. This would result trickle down effect to reduce the proportion of population living below the poverty line
- (viii) Globalisation enhances the efficiency of the banking insurance and financial sectors with the opening up to those areas to foreign capital, foreign banks and insurance companies.

- Globalization **broadens our minds**. We feel that we belong to one world and we are a part of one nation, namely, humankind.
- Closer contact with foreign people make us quite **familiar with their manners, habits, and customs**.
- Globalization help us **shake off narrowness**. We get the chance of comparing our country with other countries. In this way, we enrich our manners, customs, and habits.
- Globalization help us **fight illiteracy and promotes education**. It gives us clear knowledge of facts and things.
- Globalization help us shed or **combat the burning social issues** such as child-labor, dowry, etc.
- Globalization has helped the global community to **fight against poverty**. Large non-profit and charitable organizations have launched massive campaigns to fight hunger and poverty. They have successfully done huge fund-raising in this regard.

- The benefits of science and technology have reached every corner of the world. People around the world are **connected through mobile phones and internet technology**.
- Globalization has **enhanced our knowledge** of the world. A merchant can gather valuable information about different commodities in different countries. Firsthand knowledge of people and things is of great importance in international business.
- Due to globalization, a political leader can **gather much useful knowledge** of the people, forms of government around the world.
- Globalization contribute in **improving international relations** and friendliness among different nations

Disadvantages of Globalisation:

- i) Globalisation paves the way for redistribution of economic power at the world level leading to domination by economically powerful nations over the poor nations.
- (ii) Globalisation usually results greater increase in imports than increase in exports leading to growing trade deficit and balance of payments problem.
- (iii) Although globalisation promote the idea that technological change and increase in productivity would lead to more jobs and higher wages but during the last few years, such technological changes occurring in some developing countries have resulted more loss of jobs than they have created leading to fall in employment growth rates.

- (iv) Globalisation has alerted the village and small scale industries and sounded death-knell to it as they cannot withstand the competition arising from well organized MNCs.
- (v) Globalisation has been showing down the process to poverty reduction in some developing and underdeveloped countries of the world and thereby enhances the problem of inequality.

- vi) Globalisation is also posing as a threat to agriculture in developing and underdeveloped countries of the world. As with the WTO trading provisions, agricultural commodities market of poor and developing countries will be flooded farm goods from countries at a rate much lower than that indigenous farm products leading to a death-blow to many farmers.
- (vii) Implementation of globalisation principle becoming harder in many industrially developed democratic countries to ask its people to bear the pains and uncertainties of structural adjustment with the hope of getting benefits in future.

- In a way, globalization has contributed towards increasing the **gap between the rich and the poor**. Rich and wealthy people are able to exercise more control over the national resources through the application of science and technology.
- The environment has suffered greatly due of globalization. On one hand, the increase in traffic between countries has polluted the tourist destinations. On the other hand, the poisonous gases released into the air by large industries have **caused environmental pollution**.
- The **natural resources of the earth have been exploited beyond** the tolerable limit. Some places on earth, which was once rich in minerals and forests can no longer claim their richness.

- Many communities **failed to preserve their old tradition, custom, and culture**. Being attracted by the culture of developed nations, many people in under-developed nations have shed their traditional dress, food, and rituals. This is yet another disadvantage of Globalization.
- Local businesses, hand-loom industry, Cottage and small-scale industry suffered a lot due to globalization. The highly specialized and efficient multi-national companies take advantages of large-scale production and put products at throwaway prices. The **local industries could not compete with their global counterpart**.
- The global economy is now inter-connected. The economic **downfall of one major economic nation adversely affects the entire global communit**

- The more technologically advanced countries are able to sell their products to less-developed countries. Hence, the **less developed countries become dependent upon the superior nations.**
- The adverse effect of globalization is not restricted to financial and economical imbalance. Last century has witness **spread of diseases from one country to another country.** Diseases spread to local places when a diseased person from a foreign country comes in contact with local inhabitants

- Globalization is responsible for the emergence of large number of multi-national companies. Very often, it is found that they **do not provide good working condition to the workers**. Further, **forests have been cut** for setting up large industries. The industrial discharges have widely contributed towards **environmental degradation**.

- **Conclusion:** In spite of so many disadvantages of Globalization, one must admit that no country can afford to ignore the wave of Globalization. Globalization, thus, is a reality. However, adequate care, caution, and measures should be taken to mitigate the ill effects of Globalization so that every nation can take the fullest advantage of Globalization.