SOS POLITICAL SCIENCE AND PUBLIC ADMINISTRATION
MBA FA 203
SUBJECT NAME: BUSINESS ENVIRONMENT

UNIT-V

TOPIC NAME: POLICY OF LIBERALIZATION AND GLOBALIZATION

LIBERALIZATION:

Liberalization is any method of how a state raises limitations on some private individual ventures. Liberalization befalls when something which was forbidden is no longer forbidden or when government laws are loosened.

Liberalization was begun to put an end to these limitations and open multiple areas of the economy. Though some liberalization proposals were prefaced in the 1980s in areas of export-import policy, technology up-gradation, fiscal policy and foreign investment, industrial licensing, economic reform policies launched in 1991 were more general. There are a few significant areas, namely, the financial sector, industrial sector, foreign exchange markets, tax reforms and investment and trade sectors which gained recognition in and after 1991.

LIBERALIZATION IN INDIA:

Since the adoption of the new economic strategy in 1991, there has been a drastic change in the Indian economy. With the arrival of liberalization, the government has regulated the private sector organizations to conduct business transactions with fewer restrictions.

For developing countries, liberalization has opened economic borders to foreign companies and investments. Earlier, Investors has to encounter difficulties to enter countries with many barriers.

These barriers included tax laws, foreign investment restrictions, accounting regulations, and legal issues. The economic liberalization reduced all these obstacles and waived few restrictions over the control of the economy to the private sector.

OBJECTIVES:

- To boost competition between domestic businesses
- To promote foreign trade and regulate imports and exports
- Improvement of technology and foreign capital
- To develop a global market of a country
- To reduce the debt burden of a country
- To unlock the economic potential of the country by encouraging the private sector and multinational corporations to invest and expand.
- To encourage the private sector to take an active part in the development process.
- To reduce the role of the public sector in future industrial development.
- To introduce more competition into the economy with the aim of increasing efficiency.

REFORMS UNDER LIBERALIZATION:

- Deregulation of the Industrial Sector
- Financial Sector Reforms
- Tax Reforms
- Foreign Exchange Reforms
- Trade and Investment Policy Reforms
- External Sector Reforms
- Foreign Exchange Reforms
- Foreign Trade Policy Reforms

IMPACT OF LIBERALIZATION:

Positive Impact of Liberalization in India:

1. Free flow of capital: Liberalization has enhanced the flow of capital by making it affordable for businesses to reach the capital from investors and take a profitable project.

2. Diversity for Investors: The Investors will be benefitted by investing a portion of their business into a diversifying asset class.

3. Impact on Agriculture: In this area, the cropping designs have experienced a huge change, but the impact of liberalization cannot be accurately measured.

Government restrictions and interventions can be seen from production to distribution of the crop.

Negative Impact of Liberalization in India:

1. The weakening of the economy: Enormous restoration of political power and economic power will lead to weakening the entire Indian economy.

2. Technological Impact: Fast development in technology allows many small scale industries and other businesses in India to either adjust to changes or shut their businesses.

3. Mergers and Acquisitions: Here small businesses are merging with big companies, therefore, the small companies employees may need to enhance their skilled and technologically advanced. This enhancing of skill and the time it might take may lead to non-productivity and can be a burden to the company's capital.

Economic Reforms during Liberalization:

Several sectors were affected by the outburst of the impact of Liberalization. Few economic reforms were:

- Financial Sector Reforms
- Tax Reforms / Fiscal Reforms
- Foreign Exchange Reforms / External Sector Reforms
- Industrial Sector Reforms

GLOBALIZATION:

Globalization or globalisation is the process of interaction and integration among people, companies, and governments worldwide. As a complex and multifaceted phenomenon, globalization is considered by some as a form of capitalist expansion which entails the integration of local and national economies into a global, unregulated market economy. Globalization has grown due to advances in transportation and communication technology. With the increased global interactions comes the growth of international trade, ideas, and culture. Globalization is primarily an economic process of interaction and integration that's associated with social and cultural aspects. However, conflicts and diplomacy are also large parts of the history of globalization, and modern globalization.

Economically, globalization involves goods, services, the economic resources of capital, technology, and data. Also, the expansions of global markets liberalize the economic activities of the exchange of goods and funds. Removal of cross-border trade barriers has made formation of global markets more feasible. The steam locomotive, steamship, jet engine, and container ships are some of the advances in the means of transport while the rise of the telegraph and its modern offspring, the Internet and mobile phones show development in telecommunications infrastructure. All of these improvements have been major factors in globalization and have generated further interdependence of economic and cultural activities around the globe.

Though many scholars place the origins of globalization in modern times, others trace its history long before the European Age of Discovery and voyages to the New World, some even to the third millennium BC. Large-scale globalization began in the 1820s. In the late 19th century and early 20th century, the connectivity of the world's economies and cultures grew very quickly. The term globalization is recent, only establishing its current meaning in the 1970s.

In 2000, the International Monetary Fund (IMF) identified four basic aspects of globalization: trade and transactions, capital and investment movements, migration and movement of people, and the dissemination of knowledge. Further, environmental challenges such as global warming, cross-boundary water, air pollution, and over-fishing of the ocean are linked with globalization. Globalizing processes affect and are affected by business and work organization, economics, socio-cultural resources, and the natural environment. Academic literature commonly subdivides globalization into three major areas: economic globalization, cultural globalization, and political globalization.

THERE ARE ABOUT SEVEN MAJOR TYPES OF GLOBALIZATION:

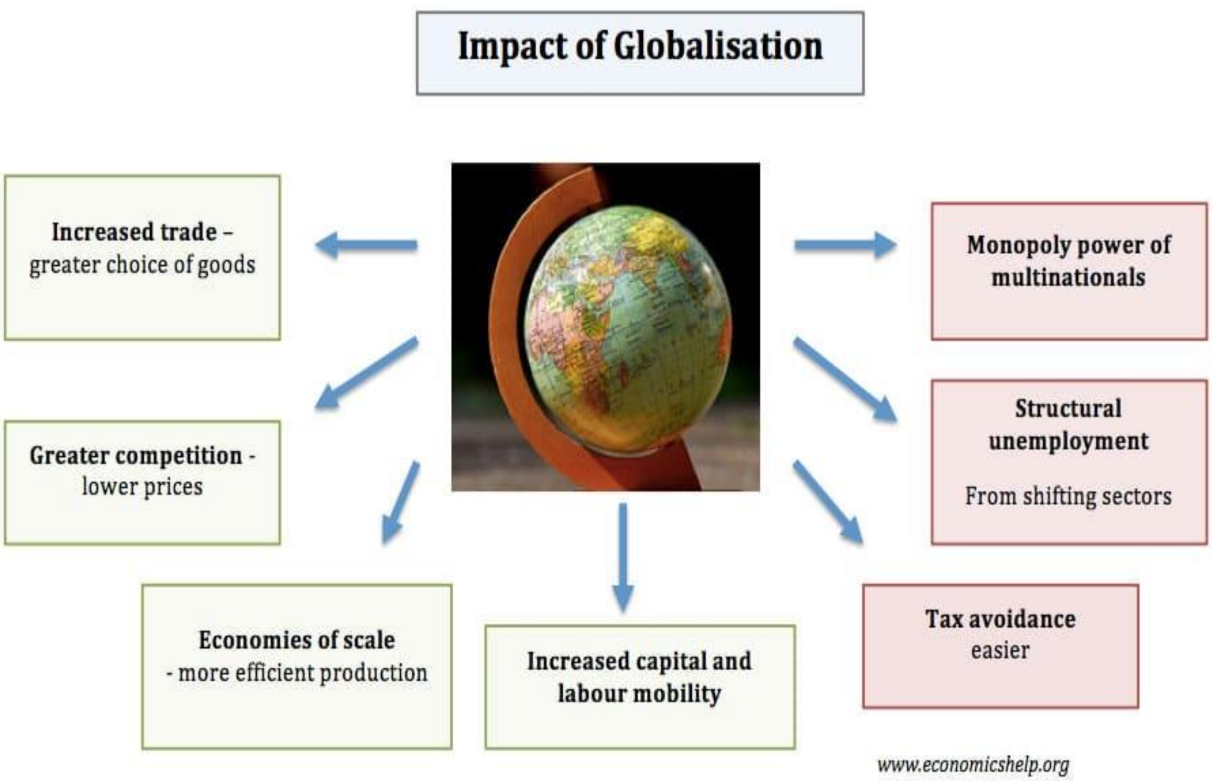
- Financial globalization.
- Economic Globalization.
- Technological Globalization.
- Political Globalization.
- Cultural Globalization.
- Ecological Globalization.
- Sociological Globalization.

POSITIVE AND NEGATIVE EFFECTS OF GLOBALIZATION:

NEGATIVE AND POSITIVE EFFECTS OF GLOBALIZATION

Negative	Positive
The growth of international trade is exacerbating income income inequalities, both between and within industrialized industrialized and less nations.	It creates greater opportunities for forms in less industrialized countries to tap into more and larger markets markets around the world.
Global commerce is increasingly dominated by transnational corporations which seek to maximize profits profits without regard for the development needs of individual countries or the local populations.	This can lead to more access to capital flows, technology, technology, human capital, cheaper imports and larger larger export markets.
Competitions among developing countries to attract foreign foreign investment leads to a "race to the bottom" in which which countries dangerously lower environmental standards.	It allows businesses in less industrialized countries to to become part of international production networks and and supply chains that are the main conduits of trade.

IMPACT OF GLOBALISATION:



PRIVATIZATION:

This is the second of the three policies of LPG. It is the increment of the dominating role of private sector companies and the reduced role of public sector companies.

In other words, it is the reduction of ownership of the management of a government-owned enterprise. Government companies can be converted into private companies in two ways:

- By disinvestment
- By withdrawal of governmental ownership and management of public sector companies.

FORMS OF PRIVATIZATION:

- **Denationalization or Strategic Sale**: When 100% government ownership of productive assets is transferred to the private sector players, the act is called denationalization.
- **Partial Privatization or Partial Sale**: When private sector owns more than 50% but less than 100% ownership in a previously construed public sector company by transfer of shares, it is called partial privatization.
  Here the private sector owns the majority of shares. Consequently, the private sector possesses substantial control in the functioning and autonomy of the company.
- **Deficit Privatization or Token Privatization:** When the government disinvests its share capital to an extent of 5-10% to meet the deficit in the budget is termed as deficit privatization.

OBJECTIVES OF PRIVATIZATION:

- Improve the financial situation of the government.
- Reduce the workload of public sector companies.
- Raise funds from disinvestment.
- Increase the efficiency of government organizations.
- Provide better and improved goods and services to the consumer.
- Create healthy competition in the society.
- Encouraging foreign direct investments (FDI) in India.

LPG REFORMS IN INDIA:

LPG reforms of 1991 are a strategic shift in Indian economy which changed the very Nature of Indian reality today. This topic forms the foundation for Indian Economy today. Having a fair idea about the change it brought in Indian economy and international events which lead to it is important for the Mains across disciplines.

Static dimensions:

- Nature of Indian economy in the pre reform era
- Factors which led to 1991 economic reforms
- International events associated with Indian reforms

Current dimensions:

- Nature and scope of reforms
- Outcome of the LPG reforms

NATURE OF INDIAN ECONOMY IN THE PRE REFORM ERA:

Indian economic policy after independence was influenced by the colonial experience, which emphasized on industrialization under state monitoring, state intervention in labor and financial markets, a large public sector, business regulation, and central planning.

Indian economy was a closed one. Licence Raj was prevalent to set up business in India. The Indian rupee was inconvertible and high tariffs and import licensing prevented foreign goods reaching the market.

The central pillar of the policy was import substitution, the belief that India needed to rely on internal markets for development, not international trade. There was restriction of foreign investment and technology and government controlled finance and capital markets.

There were high duties and taxes with multiple rates and large dispersion. PSUs were considered as the engine of growth. There were restrictions on Foreign Direct Investment (FDI) and Multinational corporations (MNCs).

FACTORS WHICH LEAD TO 1991 ECONOMIC REFORMS:

- **Rise in Prices:** The inflation rate increased from 6.7% to 16.7% due to rapid increase in money supply and the country's economic position became worse.
- **Rise in Fiscal Deficit:** Due to increase in non-development expenditure fiscal deficit of the government increased. Due to rise in fiscal deficit there was a rise in public debt and interest. In 1991 interest liability became 36.4% of total government expenditure.
- **Increase in Adverse Balance of Payments:** In 1980-81 it was Rs. 2214 crore and rose in 1990- 91 to Rs. 17,367 crores. To cover this deficit large amount of foreign loans had to be obtained and the interest payment got increased.
- **Iraq War:** In 1990-91, war in Iraq broke, which led to a rise in petrol prices. The flow of foreign currency from Gulf countries stopped and this further aggravated the problem.
- **Dismal Performance of PSUs:** These were not performing well due to political interference and became big liability for government.
- **Fall in Foreign Exchange Reserves:** India's foreign exchange reserve fell to low ebb in 1990-91 and it was insufficient to pay for an import bill for 2 weeks.

INTERNATIONAL EVENTS ASSOCIATED WITH INDIAN REFORMS:

- The Soviet Union was collapsing at the time, proving that more socialism could not be the solution for India's ills.
- Deng Xiaoping had revolutionized China with market-friendly reforms.
- 1990-91 Iraq war led to the stoppage of flow of foreign currency from Gulf countries.
- To tide over the Balance of Payment (BoP) issues, India borrowed huge amount from International Monetary Fund (IMF).
- The Asian financial crisis of 1997-99 laid India low.
- The dot-com collapse and global recession of 2001, and the huge global uncertainty created in the run-up to the invasion of Iraq in 2003.
- The global boom of 2003-08 spearheaded by China.

NATURE AND SCOPE OF REFORMS:

India's New Economic Policy was announced on July 24, 1991 known as the LPG or Liberalization, Privatization and Globalisation model.

- **Liberalization-** It refers to the process of making policies less constraining of economic activity and also reduction of tariff or removal of non-tariff barriers.
- **Privatization-** It refers to the transfer of ownership of property or business from a government to a privately owned entity.
- **Globalization-** It refers to the expansion of economic activities across political boundaries of nation states.

The main objective was to plunge Indian economy into the arena of "Globalization" and to give it a new thrust on market orientation. The policy was intended to move towards higher economic growth rate and to build sufficient foreign exchange reserves.

It wanted to achieve economic stabilization and to convert the economy into a market economy by removing all kinds of unnecessary restrictions. The policy aimed at increasing the participation of private players in all sectors of the economy.

SALIENT FEATURES OF LPG POLICY:

- Abolition of Industrial licensing/ Permit Raj
- Public sector role diluted
- MRTP limit goes
- Beginning of privatization
- Free entry to foreign investment and technology
- Industrial location policy liberalized
- Abolition of phased manufacturing programs for new projects
- Removal of mandatory convertibility cause
- Reduction in import tariffs
- Deregulation of markets
- Reduction of taxes

OUTCOME OF THE LPG REFORMS:

Positive outcomes:

- India's GDP growth rate increased. During 1990-91 India's GDP growth rate was only 1.1% but after 1991 reforms GDP growth rate increased year by year and in 2015-16 it was estimated to be 7.5% by IMF.
- Since 1991, India has firmly established itself as a lucrative foreign investment destination and FDI equity inflows in India in 2019-20 (till August) stood at US$ 19.33 billion.

- In 1991 the unemployment rate was high but after India adopted new LPG policy more employment got generated as new foreign companies came to India and due to liberalization many new entrepreneurs started companies.
- Per Capita income increased due to an increase in employment.
- Exports have increased and stood at USD 26.38 billion as of October, 2019.

Negative outcomes:

- In 1991, agriculture provided employment to 72 percent of the population and contributed 29.02 percent of the GDP. Now the share of agriculture in the GDP has gone down drastically to 18 percent. This has resulted in a lowering the per capita income of the farmers and increasing the rural indebtedness.
- Due to opening up of the Indian economy to foreign competition, more MNCs are competing local businesses and companies which are facing problems due to financial constraints, lack of advanced technology and production inefficiencies.
- Globalization has also contributed to the destruction of the environment through pollution by emissions from manufacturing plants and clearing of vegetation cover. It further affects the health of people.
- LPG policies have lead to widening income gaps within the country. The higher growth rate is achieved by an economy at the expense of declining incomes of people who may be rendered redundant.