UNIT 19 ECONOMIC REFORMS : LIBERALISATION, GLOBALISATION AND PRIVATISATION

Objectives

After reading this unit you should be able to:

- develop a clear understanding about the concepts of liberalisation, globalisation and privatisation
- understand and appreciate the interrelationship between liberalisation, globalisation and privatisation
- understand the merits and demerits of the economic reforms undertaken in relation to liberalisation, globalisation and privatisation

Structure

19.1 Introduction

19.2 Liberalisation

19.3 Globalisation

19.4 Privatisation

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19.1 INTRODUCTION

Economic Reforms in India commenced during the year 1985 after Rajiv Gandhi took over as Prime Minister. The Prime Minister in his first national broadcast said: The public sector has entered into too many areas where it should not be. We shall open the economy to the private sector in several areas hither to restricted to it." Consequently, a number of measures were taken to remove controls, open areas to private sector players. This may be described as the first phase of liberalisation. Some of the measures initiated by his government were:

- Cement was decontrolled and a number of licenses were issued to private sector units to produce cement.
- The share of free sale sugar was increased to help the sugar industry.
- The ceiling on asset limit of big business houses was raised from Rs. 20 crores to Rs. 100 crores.
- 94 drugs were delicensed and brought out of the purview of the MRTP Act.
- Electronics industry was freed from the restrictions of the MRTP Act. Foreign firms were welcomed in this area.
- A Scheme of broad banding was introduced. This implies that within the overall capacity, firms were free to produce a range of commodities.

For instance, in lieu of the license to produce up to 350 c.c. engines capacity, firms were allowed to produce two- wheelers of any type – scooter; motor-cycles, mopeds etc. The process of broadbanding was extended to 25 categories of industries. These industries included four- wheelers, chemicals, pharmaceuticals, petro- chemicals, and typewriter of all types- manual and electronic. The industrialists were not required to take a license of each and every item in a group, but were entitled to the production of a range of products within a group. However, Rajiv Gandhi did not take a very strong and categorical position on the issue of privatisation and globalisation, though some liberalisation of the economy did take place. It was only when P.V. Narsimha Rao took over as Prime Minister in 1991 that a new industrial policy was announced which marked a sharp departure from the earlier policy of 1956.

An unprecedented balance of payments crisis emerged in early 1991. The current account deficit doubled from an annual average of $2.3 billion or 1.3 percent of GDP during the first half of the 1990s, to an annual average of $5.5 billion or 2.2 percent of GDP during the second half of the 1990s. For the first time in modern history, India was faced with the prospect of defaulting on external commitments since the foreign currency reserves had fallen to a mere $1 billion by mid-1991. The balance of payments came under severe strain from one liquidity crisis experienced in mid-January 1991 and another in late June 1991.

There were three aims of Economic policy:

- Liberalisation
- Globalisation
- Privatisation

19.2 LIBERALISATION

The main aim of the liberalisation was to dismantle the excessive regulatory framework that curtailed the freedom of enterprise. Over the years, the country had developed a system of “licence–permit raj’. The aim of the new economic policy was to save the entrepreneurs from unnecessary harassment of seeking permission from *Babudom* (the bureaucracy of the country) to start an undertaking.

Similarly, the big business houses were unable to start new enterprises because the Monopolies and Restrictive Trade Practices (MRTP) Act had prescribed a ceiling on asset ownership to the extent of Rs.100 crores. In case a business house had assets of more than Rs.100 crores, its application after scrutiny by the MRTP Commission was rejected. It was believed that on account of the rise in prices this limit had become outdated and needed a review. The second objection by the private sector lobby was that it prevented big industrial houses from investing in heavy industry and infrastructure, which required lump sum investment. In order that the big business could be enthused to enter the core sectors- heavy industry, infrastructure, petrochemicals, electronics etc., with big projects, the irrelevance of MRTP limit was recognized and hence scrapped.

The major purpose of liberalisation was to free the large private corporate sector from bureaucratic controls. It, therefore, started dismantling the regime of industrial licensing and controls. In pursuance of this policy, the industrial policy of 1991 abolished industrial licensing for all projects except for a short set of 18 industries.

On April 14, 1993, the Cabinet Committee on Economic Affairs decided to remove three more items from the list of 18 industries reserved for compulsory licensing. The three items were; motor cars, white goods (which include refrigerators, washing machines, air-conditioners, microwave ovens etc) and raw hides and skins and patent leather. In the case of cars and white goods, the basic purpose of dereservation was to increase investment in industries in procuring cars and white goods so that the demand of the large middle class ranging from 250 to 300 million can be satisfied. These commodities are no longer considered as luxury goods, but are considered domestic gadgets to reduce the drudgery of domestic work. Liberalising the automotive sector led to better designs in two wheelers, unleashing the urge to compete in global markets and widening the domestic markets through better quality and standards. It should be of interest to know that a car has 20000 components—all manufactured in the small industry sector. The automotive component manufacturing in the small-scale sector suddenly started looking up and by the turn of the decade of reforms, the component manufacturing captured global markets. The government, in response to the market demand, liberalized the industries producing these goods and freed them from industrial licensing. Therefore, liberalization led to globalization.

The abolition of licensing for raw hides and skins and patent leather is motivated by the desire to push up exports. Since the potential for leather and good quality shoe exports is very large, the government decided to abolish licensing so that large-scale units could realize this potential by the use of modern technology.

The List of Industries in which Industrial Licensing is Compulsory :

1. Coal and Lignite
2. Petroleum (other than crude) and its distillation products
3. Distillation and brewing of alcoholic drinks
4. Sugar
5. Animal fats and oils
6. Cigars and Cigarettes of tobacco and manufactured tobacco substitutes
7. Asbestos and asbestos-based products
8. Plywood, decorative veneers and other wood based products
9. Raw hides and skins, leather, chamois leather and patent leather
10. Tanned or dressed furskins
11. Paper and newsprint except bagasse-based units
12. Aerospace and defence equipment : all types
13. Industrial explosives
14. Hazardous chemicals
15. Drugs and pharmaceuticals

This long list also got truncated to six by 1999.

19.3 GLOBALISATION

Globalisation is primarily economic phenomenon, involving the increasing interaction, or integration, of national economic systems through the growth in international trade, investment and capital flows. A rapid increase in cross-border social, cultural and technological exchange is part of the phenomenon of globalisation.

Globalisation intends to integrate the Indian economy with the world economy. Globalisation is considered to be an important element in the reforms package.

It has four parameters :

(i) Reduction of trade barriers so as to permit free flow of capital and services across national frontiers;

(ii) Creation of an environment in which free flow of capital can take place;

(iii) Creation of an environment permitting free flow of technology among nation-states; and

(iv) Creation of an environment in which free movement of labour can take place in different countries of the world.

The advocates of globalisation, especially from the developed countries, limit the definition of globalisation to only three components viz., unhindered trade flows, capital flows and technology flows. They insist that the developing countries accept their definition of globalisation and conduct the debate on globalisation within the boundaries set by them. But several economists and social thinkers in developing countries believe that this definition is incomplete. If the ultimate aim of the globalization movement is to integrate the world into one global village, then the fourth component of unrestricted movement of labour cannot be left out. But whether the debate about globalisation is carried out at the World Trade Organisation (WTO) or at any other international forum, there is a deliberate effort to black out 'labour flows' as an essential component of globalisation.

To pursue the objective of globalisation, the following measures have been take:

(i) **Reduction of import duties:** There has been a considerable reduction in import duties. A reduction in import duties and the extension of MODVAT credit on taxes paid on inputs have been important measures for improving efficiency of the tax system. By 1990 import duties were 300 percent or more for several items and above 200 percent for many items. Peak rates were progressively reduced during the 1990s to reach 35 percent in 2001-02. The median tariff rate was brought down to 25 percent in the 2003-04 budget. It is supposed to come down to 15 percent during 2004-05. Besides this, the government has attempted to rapidly dismantle quantitative restriction on imports and exports. It has also undertaken adjustment of exchange rate so as to remove over-valuation of currency. This has helped in stepping up exports.

On the 8th February, 1997 the Commerce Ministry removed restrictions on 162 items for imports. Out of them, 69 items were moved from Special Import License (SIL) to free imports. Among these items are escalators and moving walkways, cable cars, burglar and fire alarms, cameras of all kinds, auto-bank note dispensers, industrial vacuum cleaners and various kinds of glassware. Besides this, 93 items were moved from industrial to SIL (Special Import License) list which included photographic films rubber stoppers, aluminum beverage cans, car air-conditioning machines, cosmetic perfumes, picture tubes below 14 inches and a wide range of office machines. By April 2001, all the quantitative restrictions on imports were removed. Only a few items have been retained for exports through State Trading enterprises.

(ii) **Encouragement of foreign investment:** The government has taken a number of measures to encourage foreign investment. The main measures taken in this regard are:

a) Approval would be given for direct investment upto 51 per cent foreign equity in high priority industries as per Industrial Policy of 1991. There shall be no bottlenecks of any kind in this process. Such clearances will be given if foreign equity covers the foreign exchange requirements for imported capital goods.

On the 31st of December, 1996 the Cabinet gave its assent to a new list of industries whereby joint ventures with upto 74 per cent foreign equity would be cleared automatically. Among the industries listed for the purpose are: Mining services such as oil and gas fields services., basic metals and alloy industries, other manufacturing industries related to the items based on solar energy like solar cells, cookers, air and water heating systems, small hydro-equipment, construction and maintenance of roads, bridges, tunnels, pipelines, ropeways, ports, harbours and runways, electric generation and transmission and other infrastructure. The basic purpose of this move is to facilitate direct foreign investment in India.

b) To provide access to international markets, majority foreign equity holding up to 51% equity would be allowed for trading companies primarily engaged in export activities.

iii) **Encouragement to foreign technology agreement:** The Industrial Policy of 1991 undertook the following measures:

a) Automatic permission will be given for foreign technology agreements in high priority industries up to a lump sum payment of Rs.1crore, 5% royalty for domestic sales and 8% for exports, subject to total payments of 8% sales over a 10 year period from the date of the agreement or 7 years from commencement of production.

b) In respect of other industries, automatic permission would be given if no free foreign exchange were required for any payments.

c) No permission will be necessary for hiring of foreign technicians and foreign testing of indigenously developed technologies.

19.4 PRIVATISATION

Privatisation deals with the transfer of businesses from the state to the private sector. This commonly involves complex contractual structures to be put in place, and the industries concerned are usually closely regulated.

Privatisation in narrow sense indicates transfer of ownership of a public sector undertaking to private sector, either wholly or partially. But in another sense, it implies the opening up of the private sector to areas, which were hitherto reserved for public sector. Such deliberate encouragement of investment to the private sector in the economy, will over a period of time increase the overall share of the private sector in the economy. This is the broader view in which privatisation of the economy can be effected. The basic purpose is to limit the areas of the public sector and to extend the areas of private sector operation including heavy industries and infrastructure.

Privatisation is, therefore, a process of involving the private sector in the ownership or operation of a state owned or public sector undertaking. It can take three forms: (i) Ownership measures; (ii) Organisational measures; and (iii) Operational measures.

(i) **Ownership measures**: The degree of privatisation is judged by the extent of ownership transferred from the public enterprises to the private sector. Ownership may be transferred to an individual, co-operative or corporate sector. This can have three forms:

a) **Total decentralization** implies 100 per cent transfer of ownership of a public enterprise to private sector.

b) **Joint Venture** implies partial transfer of a public enterprise to the private sector. It can have several variants – 25% transfer to private sector in a joint venture implies that majority ownership and control remains with the public sector. 51% transfer of ownership to the private sector shifts the balance in favour of the private sector, though the public sector retains a substantial stake in the undertaking. 74% transfer of ownership to the private sector implies a dominant share being transferred to private sector. In such a situation, the private sector is in a better position to change the character of an enterprise.

c) **Liquidation** implies the sale of assets to a person who may use them for the same purpose or some other purpose. This solely depends on the preference of the buyer.

d) **Workers' co-operative** is a special form of decentralization. In this form, ownership of the enterprise is transferred to workers who may form a co-operative to run the enterprise. In such a situation, appropriate provision of bank loans is made to enable workers to buy the shares of the enterprise. The burden of running the enterprise rests on the workers in a workers' Co-operative. The workers become entitled to ownership dividend besides getting wages for their services.

(ii) **Organizational measures** include a variety of measures to a limited state control. They include :

a) **A holding company** may be designed to taking top-level major decisions with sufficient degree of autonomy for the operating companies in its hold in their day-to- day operations. A big company like the Oil & Natural Gas Commission (ONGC), Steel Authority of India (SAIL) or Bharat Heavy Electricals Limited (BHEL) may acquire a holding status, thereby transferring a number of functions to its smaller units. In this way, a decentralized pattern of management emerges.

b) **Leasing:** In this arrangement, the government agrees to transfer the use of assets of a public enterprise to a private bidder for a specified period, say of 5 years. While entering into a lease, the bidder is required to give an assurance of the quantum of profits that would be made available to the state. This is a kind of tenure ownership. The government reserves the right to review the lease to the same person or to grant the lease to another bidder depending upon the circumstances of the case.

c) **Restructuring** is of two types: financial restructuring and basic restructuring.

   (1) **Financial restructuring** implies the writing off of accumulated losses and rationalization of capital composition in respect of debt-equity ratio. The main purpose of this restructuring is to improve the financial health of the enterprise.

   (2) **Basic restructuring** is said to occur when the public enterprise decides to shed some of its activities to be taken up by ancillaries or small-scale units.

(iii) **Operational measures**: The efficiency of public sector enterprises depends upon the organisational structure. Unless this structure grants a sufficient degree of autonomy to the operators of the enterprise or develop a system of incentives, it cannot raise its efficiency and productivity. These measures include: (a) grant of autonomy to public enterprises in decision making, (b) provision of incentives for workers and executives consistent with increase in efficiency and productivity, (c) freedom to acquire certain inputs from the markets with a view to reducing costs, (d) development of proper criteria for the investment planning, and (e) permission to public enterprise to raise resources from the capital market to execute plan of diversification/expansion. The basic purpose of operational measures is to infuse the spirit of private enterprise.

19.5 LIBERALISTION, GLOBALISATION AND PRIVATISATION: TO WORK FOR A COMMON GOAL

Liberalisation, globalisation and privatisation are all means to achieve certain ends of the society, just as nationalization and regulatory frame work were intended to achieve certain goals. These are:

1. To achieve high rate of growth of national and per capita income;
2. To achieve full employment;
3. To achieve self-reliance;
4. To reduce the inequality of income and wealth;
5. To reduce the number of people living below the poverty line;
6. To develop a pattern of society based on equality and absence of exploitation.

It is true that the operation of the public sector and the regulatory framework resulted in certain problems as we notice in detail in the next unit.
Let us summarise these problems:

- The excessive development of bureaucratic controls began to act as shackles on growth;
- Overstaffing in public sector enterprises leads to an increase in cost of operation;
- Low rate of return on investment in public sector;
- Poor work ethic in public sector enterprises due to excessive job security and absence of incentives for better work;
- Entry of public sector in areas of consumer goods for which it was never meant. Thus, this unnecessary expansion resulted in absence of focus and dilution in the quality of management;
- Some public sector enterprises were incurring losses year-after year and as such had become a burden on the ex-chequer, instead of being an asset to the nation.

The measures undertaken, whether under liberalisation, globalisation or, privatisation are all designed to rectify these problems so that working of the economy becomes more efficient and the rate of growth of the economy improves. Higher rate of growth, it is felt, is the remedy to improve the level of employment, to reduce poverty and to assure a better living standard to the people. It would, therefore be necessary to review economic reforms and study their impact during the last 5 years or so.

19.6 REVIEW OF ECONOMIC REFORMS RELATED TO LIBERALISATION, GLOBALISATION AND PRIVATISATION

The advocates of the reforms process claim a number of achievements. Critics of reforms have drawn attention to various aspects of reform. However, there seems to be a general agreement among all political parties that the reforms are a historical necessity and it would not be possible to reverse the reform process. Even the left parties, after the collapse of Soviet Union, have veered round the view that reforms in the form of liberalisation, privatisation and globalisation will have to be undertaken. The focus of the debate is to ensure that whereas the reform process has helped to accelerate the growth, the benefits of the growth have not percolated to poor and weaker section of the society. It would, therefore, be desirable to consider the various arguments so as to understand the manner in which the measures taken need to be modified so as to achieve the objective of growth with the social justice. The Common Minimum Programme of the Congress-led united front in 2004-05 resolved to restrict privatization only to the loss making enterprises. There would be no further shedding of public sector enterprises that are being run profitably as was done by the National Democratic Alliance led by the Bharatiya Janata Party. Accordingly, the erstwhile independent Ministry of Disinvestment was converted to one department in the Ministry of Finance with the Union Government.

Table 19.1. Growth Rate of Gross Domestic Product

Year	Growth Rate (at 1993-94 prices)
1997-98	4.8%
1998-99	6.5%
1999-00	6.1%
2000-01	4.0%
2001-02	5.4%
2002-03	6.2%

Higher Growth Rate achieved: The average growth rate of over 6 per cent during the last 10 years (1992-93 to 2002-03) is an achievement of the reform process. This would result in an average 4 per cent growth rate of per capita GDP. This is an achievement, which has not been witnessed earlier during the last 50 years of planning.

Control of Inflation: The first four years of the 1990s registered double-digit inflation based on the wholesale price index, (WPI) with a 13.6 percent peak reached in 1992-93 (Table 19.2). High fiscal deficits, devaluation of the rupee, periodical increases in administered prices (especially in official procurement and issue prices of food grains), weather conditions, shortages of some commodities of common consumption, and large money creation due to acquisition of foreign currency reserves contributed, in varying degrees, and at different points of time, to the relatively higher inflation in the first half of the 1990s. However, from 1995-96 onwards, there has been a continuous deceleration and the average inflation for the period 1996-97 to 2000-01 is by far the lowest since the mid-1950s in terms of the 52-week average. The point-to-point average inflation rate for this period is the lowest since the early 1960s. The developments in the economy since 1996 have been conducive to a decline in the inflation rate. Importantly, on the demand side, there has been a noteworthy change in the source of reserve money creation. Over the decades, monetization of the budgetary deficits by the Reserve Bank of India (RBI) had accounted for a predominant part of reserve money creation and the resultant growth, often excessive, in money supply. Since 1996-97, monetization of the budget deficit has declined sharply. During 1993 and 1994, primary liquidity was created mainly in the process of the RBI accumulating foreign currency reserves due to large inflows of foreign investment. With interest rates rising in most industrial economies, the impact of the Mexican crisis and the steps taken by the government of India to regulate the recourse of Indian industry to foreign financial markets, these inflows moderated. As government's borrowing is still very high and demand for commercial credit expected to pick-up pace, satisfying both the government and enterprise sectors will pose a difficult challenge to the monetary authorities who would like to restrain money growth to keep inflation under check. However, as pressures for reserve money creation come down, the RBI should be in a better position to balance the objectives of economic growth and moderation in prices. Satisfactory production of both food and non-food crops should keep the inflationary expectations subdued. Supply side management would be facilitated by large food stocks of 58 million tonnes as of January 2002 and high foreign exchange reserves of US$119bn as at the beginning of June 2004.

Releases of food stocks into the open market and through the public distribution system should keep cereal prices under check. The public stocks can also be used for food-for-work programs. Commodities such as sugar, edible oils and cotton, which were in short supply in the mid-1990s, have already been placed on the open general license and are thus freely importable.

The record of the measures to control inflation has been mixed. During 1992-93, wholesale price index (WPI 1981-82 =100 rose by merely 7 per cent as against the price increase by 13.7 per cent during 1991-92. but the situation again took a turn for the worse during 1993-94 and 1994-95, and the WPI rose by 10.8 per cent and 10.4 per cent respectively. Thereafter, due to strong measures taken during 1995-96, the rate of inflation slowed down to 5 per cent.

Table 19.2 Wholesale and Consumer Price Index in India
Variation (per cent) : Point to point

Year	Wholesale price index (1993-94 = 100)	Consumer price index of industrial workers (1982=100)	Consumer price index for agricultural labour (1986-87=100)
1998-99	5.3	8.9	8.8
1999-00	6.5	4.8	3.4
2000-01	5.5	2.5	-2.0
2001-02	1.6	5.2	3.0
2002-03	6.5	4.1	4.9
2003-04	4.5	3.5	2.5

Source: *Economic and Political Weekly 13-19 March 2004.*

However, the impact of inflation on the common man is measured by the consumer price index (CPI). Comparable figures of rise of CPI for industrial workers during the last 5 years reveal that CPI for industrial workers has been rising more or less in the range of about 10 per cent per annum. Similarly the Consumer Price Index for Agricultural Labourers (CPIAL), which is a more comprehensive index to measure the welfare of rural workers, which has shown an average rise of over 10 per cent during the four years 1991-95, started down-town on a sustainable basis. This has proved the strength of reform process in at least one area. Consequently, the real incomes in the hands of the poor in 2003-04 were higher than in the initial years. This has serious welfare implications.

Reform of the Public Sector: The major aim of economic reforms is to improve the public sector so that the rate of return improves. To remedy the situation, it was necessary that over-staffing of the public sector undertakings (PSUs) be reduced. The government has already taken steps in this direction by its voluntary retirement scheme (VRS). For this purpose, the government set up the National Renewal Fund (NRF) to provide compensation for voluntary retirement and also arrange for retraining and redeployment of workers. In 1990-91, there were 22.19 lakhs employees in PSUs of the Central Government, but in 1994-95 their number has been reduced to 20.41 lakhs. This implies that, as a result of the VRS, overstaffing has been reduced by 1.78 lakhs. In other words, employees strength has been reduced by 8 per cent. Under the NRF, an amount of Rs.542 crores was provided in 1993-94 and Rs. 261 crores in 1994-95. But a major complaint about the working of the NRF is that the entire amount has been used for providing compensation for voluntary retirement scheme (VRS) and the function of retraining and redeployment of workers has been neglected.

Whenever the government tried to privatize any public sector undertaking, the opposition to the movement was so strong that the government did not succeed. The government under the provisions of Sick Industrial Companies Act (SICA) referred the cases of sick PSUs to the Bureau for Industrial and Financial Reconstruction (BIFR). Upto 31st March 1995, 53 Central sick public sector undertakings were registered with BIFR. The BIFR has taken a decision for the revival of Indian Drugs and Pharmaceuticals Ltd., Orissa Drugs and Chemicals Ltd., Smith Stanistreet and Pharmaceuticals Ltd. Bharat Brakes and Valves Ltd., Biecco Lawrie Ltd, and Bengal Immunity Ltd. It has also decided to wind up some PSUs. They are: National Bicycles Corporation of India Ltd., Elgin Mill Co. Ltd., British Indian Corporation Ltd., Cawnpore Textile Ltd and Tannery and Footwear Corporation Ltd. The cases of other registered Public Sector Enterprises are under enquiry. But BIFR did not by and large result in any significant rehabilitation.

The government has also decided to sign Memoranda of Understanding (MOU's) with various public sector enterprises. The main goal of the MOU policy is to reduce the 'quality of control' and increase the 'quality of accountability.' The MOU's grant greater operational autonomy of PSU's to pursue their objectives. Out of the 99 PSE's which signed the MOU with their administrative ministries, 46 were rated as "Excellent" and 28 as "very good".

The net result of the efforts of the government was that the overall net profit earned by Central PSE's increased from Rs. 4,545 crores to Rs. 7, 217 crores which signifies as increase of 58.8 per cent over the previous year. This is a welcome development.

Another step taken by the government was disinvestment of PSUs. The government has been offering equity of 31selected public sector enterprises varying from 5 to 20% to mutual funds and financial institutions. This is only a token of privatisation and the government was able to raise Rs.9,793 crores during the four year period (1991-92 to 1994-95). However, the disinvestment programme did not pick up during 1995-96 and 1996-97, despite the fact that the government has been making a provision of Rs. 5,000 crores every year in the budget. Between 1991-92 and 2001-02, the disinvestment proceeds have totalled Rupees 253 billion out of a targeted Rupees 660 billion. During 2002-03, the government has listed strategic sales of oil refiners BPCL and HPCL, petrochemical firm IPCL, Shipping Corporation of India, carmaker Maruti and National Aluminum Company as a few of its big ticket sell-offs.

Critics describe the disinvestments as deficit privatization, because the proceeds of the disinvestments are being used to reduce the budget deficit. The Common Minimum Programme of the United Progressive Alliance Government stipulated that the proceeds of the disinvestments would be used in the two vital areas – health, and education. A part of the proceeds of the disinvestment will be earmarked to create an investment fund, which will be used to strengthen other public sector enterprises.

On the whole the reforms of PSUs, including privatisation and phasing out of the unviable units have not gathered as much momentum as had been hoped for. Disinvestment has been piecemeal and the funds so raised are being used to reduce the budget deficit, rather than strengthening the PSUs. Along with this, labour problem, political and bureaucratic interference have not been effectively reduced. Since it is not possible to privatize a large component of the public sector, it would be advisable to reform it.

Large dose of foreign capital to help Indian economy

The reforms process especially its emphasis on globalisation, was intended to help the acceleration of the growth process by attracting a larger dose of the foreign Capital. As a result of these and other measures, real private fixed investment rose to 16.8 per cent of GDP in 1997-98 from 10.7 percent in 1980-81 and 12.71 percent in 1990-91. India, for the first time, was one of the top ten emerging market destinations for FDI (excluding developed countries). The point that needs to be emphasized, however, is that direct foreign investment is less than one-third Non-Residence total foreign investment. If adjustment is made for the contribution of Non-resident Indians in FDI to the tune of 10.4 per cent; the net contribution of foreigners in FDI flows becomes 21.1 per cent (nearly one-fifth of the total). It need not be mentioned that portfolio investment is of a speculative nature and can take flight in a period of political uncertainty.

Moreover, critics point out that nearly 39 per cent of the foreign investment is in the non-priority sector, viz. food-processing, service sector, hotels, and tourism,. The entry of multinationals in consumer goods like, colas, jams, potato chips, wafers, ice creams, etc. only displaces Indian labour and capital employed in the production of these commodities. The multinationals are keen to enter these areas of short gestation period and very high profitability. The critics, therefore, point out that while foreign investment and technology are needed, the government should be more selective by obtaining these for the capital goods and infrastructure sectors so that they enhance both the capacity and capability of the Indian economy.

Table 19.3 : Data on Trade balance during the post-reform period.

(*in US $ million*)

	97-98	**98-99**	**99-00**	**00-01**	**01-02**	**02-03**	**03-04**
Exports	35006	33219	36822	44560	43827	52719	47503
Imports	41484	42389	49671	50536	51413	61412	61933
Trade balance	**-6478**	**–9170**	**–12848**	**–5976**	**–7587**	**–8693**	**-14431**

Source : *Economic and Political Weekly 13-19 March 2004.*

Reform process and the foreign trade scenario: The reform process has led to growth of exports; but simultaneously it has also led to a larger growth of imports. As a consequence, the trade gap has not been reduced.

Globalisation has failed to reduce the trade gap, more so if we take into account total imports, including defence imports, as indicated by the RBI. This would seem to indicate the need to re-examine the open door policy of imports as also to boost exports.

Reform process and fiscal deficit: A major objective of the structural adjustment programme was to reduce the fiscal deficit. No doubt the government was able to reduce fiscal deficit as a proportion of GDP from 8.3 per cent in 1990-91 to 5.7 percent in 1993-94. It was brought down to 6.1 per cent in 1994-95 and 5.8 per cent in 1995-96. Fiscal deficit seemed to have only worsened subsequently due to the burden of wage revisions in the government and public secors. Although the need of the hour is to reduce subsidies, both explicit and imlicit, so that a more sustainable effect on fiscal deficit can be made, the Common Minimum Programme would seem to indicate the unlikelihood of improvement in this area.

Table 19.4 : Exchange rate of rupee Vis-à-vis US Dollar

Year	Rs. Per US $
1990-91	17.94
1991-92	24.47
1992-93	30.65
1993-94	31.37
1994-95	31.40
1995-96	33.45
1996-97	35.50
1997-98	37.16
1998-99	42.07
1999-00	43.33
2000-01	45.68
2001-02	47.69
2002-03	48.46
2003-04	46.02

Source : *Reserve Bank of India Bulletin*

Reform process and the exchange value of the Rupee: The Exchange Rate of the Rupee vis-à-vis US $ was Rs. 17.96 in 1990-91, but gradually the exchange rate has been appreciating and it became 1 US $ = Rs. 31.37 in 1994-95 and Rs. 35.6 per US $ in 1996-97. In other words, the international value of the Rupee has become nearly half its level of 1990-91. The fall in the value of the Rupee results in an increase in the burden of international debt. Secondly, it adversely effects the foreign investor's confidence in India. RBI has substantially reduced its intervention stabilization of the Rupee vs US$ and fully liberalized the current account operations. This led to strengthening of the Rupee against the US$ significantly during the years 2002-04. The reform process that led to strengthening of the Rupee is now threatening exporters with eroded cash margins.

Economic Reform and India's Foreign Exchange Reserves: The advocates of globalisation claim that as a result of the reform process, foreign exchange reserves which had fallen to the level of US $ 2.2 billion started picking up and were around US $ 20.8 billion in 1994-95, but due to sharp deficit in balance of payments on current account in 1995-96, the reserves came down to US $ 17 billion. As at the beginning of June 2004, the reserves moved to a new high of US$119bn due to liberalization of FDI and FIIs and free flow of NRI funds reflecting the investors' confidence in India.

Table 19.5 : Balance of Payments of Current Account and Foreign Exchange Reserves (excluding Gold)

(*in US $ million*)

Year	Balance of Payments on Current Account	Foreign Exchange Reserves
1990-91	-9,438	2,236
1993-94	-4,056	15,068
1994-95	-9,049	20,809
1995-96	-11,359	17,044
1996-97	-14,815	22,367
1997-98	-15,507	25,975
1998-99	-13,246	29,522
1999-00	-17,098	31,992

Source : *Reserve Bank of India Bulletin*

To conclude it may be said that policies of liberalisation, globalisation and privatisation which symbolize economic reforms have concentrated on short-term objectives such as controlling the deteriorating situation in balance of payments, building up foreign exchange reserves, reducing fiscal deficit, controlling inflation etc., However, the long-term goals of reducing poverty, achievement of full-employment, self-reliance and growth with social justice have remained unattended. The reform process has not yet succeeded in reducing the fiscal deficit. Naturally, there is a need to re-orient economic reforms so as to achieve long-term goals of the society, more especially full employment, self-reliance and growth with social justice.

19.7 SUMMARY

Economic Reforms were introduced by Shri Rajiv Gandhi soon after taking over as Prime Minister in 1985. He underlined the need for opening several areas hitherto reserved for the public sector to the private sector. Some measures of delicensing, raising the MRTP limit from Rs. 20 crores to Rs. 100 crores, broad-banding scheme etc., were taken, but the government did not take a categorical position on issues relating to privatisation and globalisation.

A sharp departure from the Industrial Policy of 1956 took place with the announcement of Industrial Policy 1991. Three major strategies of new economic policy are: (i) liberalisation, (ii) globalisation and (iii) privatisation.

The main aim of **liberalisation** was to dismantle excessive regulatory framework and bureaucratic controls that acted as shackles on freedom of enterprise.

The ceiling on assets fixed under MRTP Act has been abolished in order to permit large houses to undertake investment in the core sectors – heavy industry, infrastructure, petro-chemicals, electronics etc., with a view to introduce competition.

The number of items requiring licensing was reduced to a short list of bare 4 industries. This freed the private sector to set up industrial units quickly.

Commission in the place of MRTP, Competition Policy was framed. But the Competition Bill has not been introduced. This is likely to hit a road block with the influence of the Leftist forces in the government.

Globalisation intends to integrate the Indian Economy with the world economy. Four parameters to globalisation are: (i) trade flows. (ii) capital flows, (iii) technology flows and (iv) labour flows. If the developed countries were to restrict the definition to only three and omit labour flows, globalisation will remain incomplete.

Measures promoting globalisation in India include:

(i) Reduction of import duties

(ii) Encouragement of foreign investment through

- a) Grant of automatic approval for direct foreign investment upto 51 per cent equity participation.

  (In December 1996, the government announced a new list of industries whereby joint ventures upto 74 per cent foreign equity would be cleared automatically).

- b) Majority foreign equity holding upto 51 per cent allowed in trading companies.

(iii) Encouragement of foreign technology agreements within prescribed limit of payments in foreign exchange.

Privatisation is the process involving the private sector in the ownership or operation of a state-owned undertaking. It has three forms:

(i) **Ownership measures** include: (a) Total denationalization, (b) Joint Ventures, (c) Liquidation and (d) Worker's co-operatives

(ii) **Organisational measures** include: (a) A holding company structure, (b) Leasing, (c) Restructuring – either financial restructuring or basic restructuring, or both

(iii) **Operational measures** are aimed at improving the efficiency and productivity of an organisation. They include:

- a) Grant of autonomy in decision-making
- b) Provision of incentives for workers and executives
- c) Freedom to acquire certain inputs from the market
- d) Development of proper criteria for investment planning
- e) Permitting public enterprises to raise resources from the capital market.

The basic purpose is to infuse the spirit of private enterprise in PSUs.

Privatisation in a broader sense implies encouragement of investment by private sector in areas hitherto reserved for the public sector so that the overall share of private investment sector improves in the economy in the long run.

Liberalisation, globalisation and privatisation are intended to achieve certain long-term goals of society. These goals are: (i) higher growth of national and per capita income, (ii) full – employment, (iii) self-reliance, (iv) reduction of inequalities of income and wealth, (v) reduction of population, below the poverty line. In nutshell these measures aim at creating a society based on growth with social justice.

Some of the problems associated with the public sector are:

(i) Excessive bureaucratic controls,

(ii) Overstaffing,

(iii) Low rate of return,

(iv) some enterprises incurring losses year–after–year.

Review of Economic Reforms related to liberalisation, globalisation and privatization

A near unanimity among political circles – from the left to the right – has been achieved on the need for economic reforms.

The need is to identify measures to modify reforms so as to achieve the objective of growth with social justice.

19.8 KEY WORDS

Basic Restructuring implies the shedding by a public enterprise of some of its activities which are taken up by ancillaries or small scale units.

Director General of Commercial Intelligence and Statistics is the organisation which keeps a complete record of the volume and value of imports made in India, either on government or private account.

Financial Restructuring implies the writing off of accumulated losses and rationalization of capital composition of an enterprise in respect of debt equity ratio.

Fiscal Deficit indicates the excess of total expenditure of the government over its total receipts (net of borrowing).

Globalisation is the process of integrating an economy with the world economy. Globalisation involves unhindered trade flows, capital flows, technology flows and, in an ultimate sense, unhindered labour flows among nation states.

Leasing implies the transfer of the right to use an asset to a person or company for a specified period.

Liberalisation is the process of freeing the economy from the stranglehold of unnecessary bureaucratic and other restrictions imposed by the state.

Liquidation implies the sale of assets to a person who may use them for the same purpose or some other purpose (s) depending upon the preference of the buyer.

Memorandum of Understanding (MoU) is the agreement made between the government and the public enterprise management, which grants greater autonomy for decision–making but simultaneously seeks a higher quality of accountability in return. MoU is signed for a specified period.

National Renewal Fund (NRF) is the fund created by the government to provide compensatory benefits to employees seeking voluntary retirement or rendered unemployed due to rationalization of labour. The fund is also expected to arrange for retraining and redeployment of retrenched labour.

Privatisation is the process of transfer of ownership or operation of a state-owned unit (public sector enterprise) either wholly or partially.

Voluntary Retirement Scheme (VRS) gives the option to an employee to seek retirement voluntarily and avail of the compensatory benefits provided by the government.

Workers' Co-Operative is the form of ownership of an enterprise in which the entire equity is transferred to the workers. The ownership and operation of the enterprise is the responsibility of workers.

19.9 SELF ASSESSMENT QUESTIONS

1. What is liberalisation? Discuss the principal measures initiated by the government to liberalise the Indian economy.
2. What are the four aspects of globalisation? In what aspects have steps been taken to globalise the Indian economy and what is the particular aspect which has remained neglected?
3. List three major measures taken for integrating Indian economy with the world economy.
4. What are the different forms of ownership privatisation? Explain each of them to bring out their essential characteristics.
5. Discuss the various organisational measures which promote privatisation.
6. Distinguish between financial restructuring and basic restructuring.
7. Liberalisation, globalisation and privatisation are the means to achieve certain ends by the society. In the light of this statement, list five major goals/ends which these instruments are intended to achieve.
8. Review the impact of economic reforms in India brining out their achievement and failures.
9. Is the reforms process reversible? If not, what measures would you suggest to modify reforms so that the country achieves the goal of growth with social justice.

19.10 FURTHER READINGS

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