

LIBERALISATION PRIVATISATION AND GLOBALISATION MODEL

* Manish Jain **Amita Verma

In 1947 when India got freedom, the main problem before the government was to develop economic conditions of country and how to increase economic Growth Economic condition of India in that time were not good, we did not have proper resources for the development of underdeveloped sector. Thus our government adopted the path of economic planning, that is on the basis of priorities the different 'Five year plans' were developed. Under the dogma of the socialistic pattern of society, India had practiced a number of restrictions ever since the introduction of the first industrial policy resolution of 1948. Hence it was necessary on the part of Government withdraw these restrictions to provide conditions of undeterred economic activities, when we decided to globalize our economy. Under the process of liberalisation, India has moved in that direction by withdrawing some of the impeding restrictions, and introducing certain conditions to ease the cord of restrictions, so that business firms and individuals from other countries may be induced to operate their business in India, while Indians can operate abroad.

Need for Liberalisation—As a result of the restrictions in the past, India's performance in the global market has been very dismal, we have never reached even the 1 percent mark in the global market. Despite the existing tremendous potentiality, vast natural resources, and extensive trained manpower, our contribution in the world trade in 1992 has been 0.53 percent, much below the level of even Thailand, and we are listed among the poor countries in the world. Though the planned economic growth backed by control could achieve some amount of economic reconstruction in the last five decades, India still remains underdeveloped with low NNP, chronic unemployment, low per capita income, a considerable percentage of population under the poverty line, low capital formation, marginal export backed by increasing import resulting in increasing trade deficit, acute decline of foreign exchange reserve, mounting foreign debts and high debt service cost, low level of technological base, grave internal economic situation, Poor external economic image and insignificant innovations, unless appropriate solutions are not found for all these problems, the vicious circle of

underdevelopment will remain for many years to come. As a primary step to find solutions to these problems, liberalisation has been identified. The Government under Former Prime Minister Narasimha Rao, and former Finance Minister Dr. Manmohan Singh chose the Path of liberalisation. Immediate factors which backed this policy change include (i) Global change, (ii) Position of Indian Economy and (iii) Trade deficit.

Global Change—The tremendous change that took place globally in the recent past, particularly during the last one decade necessitated every nation to incorporate corresponding changes in its respective economy to adopt itself to the rapidly changing environment, countries started thinking in terms of the global economy and global market. European Economic Community has become the largest single market in the world, while Gulf war has opened up a door for increasing cooperation and integration of EEC community with America. The United States and Canada have already forged an integrated trade zone. Despite a large trade surplus, Japan is still accepted as a strong trading partner of America, while the United States have granted the 'Most Favoured Nation' status to China. In a nutshell a global philosophy of business is fast emerging and is here to stay.

No country can now resist the forces of globalisation and the resultant changes that take place globally. Asia-Pacific block is also fast emerging, while an Asian common market philosophy is gaining ground, particularly in the context of the successful business operations of the countries like Japan, Singapore, South Korea, Taiwan and Hong Kong. It is, therefore, obvious that India has to rise to the occasion and adopt a policy to adapt itself to the emerging global market. This called for the abandonment of the restrictive policies followed in the past. Liberalisation of economic activities in India was considered to be the most important remedy for our economic ills. Moreover, the tremendous result of economic liberalisation in China during a period of less than a decade has been an eye-opener for India. Thus not only India, but any country that wants to operate in the global market, has to liberalize its economy and foster a global approach to boost its

* Lecturer in ABST, S.S.Jain Subodh P.G.College, Jaipur (Rajasthan)

** Research Scholar, Deptt. of Economics, University of Rajasthan, Jaipur

business. A global business and market philosophy is, thus fast emerging. Countries are, therefore, relaxing their control and regulatory measures. Privatisation of business has become the order of the day. Unless the companies are prepared to foster and maintain a global corporate philosophy, and to update their capability either to compete or remain complementary or ancillary, survival would become difficult. Of late, this fact is realised by India which led to initiating liberalisation. Fast changes are Emerging in business globally, particularly, technological changes, social, political, environmental, cultural, geographic and most important of all economic changes. In order to equip the business organization in India to stand up to these changes, a liberalisation process has ' become necessary.

Position of Indian Economy—Indian has been facing grave economic crisis and external pressure for foreign exchange, while there was an internal debt trap which continued from 1986 onwards backed by severe liquidity crisis. We were almost on the brink of defaulting international arena when Narasimha Rao's Gmverment took over in June 1991. This must have created panic in the minds of NRIs who took away deposits amounting to about 1.4 billion US dollars. The country landed in the grip of internal and external debt traps. The foreign exchange crisis was stimulated by long-term and short-term foreign debts, short-term foreign debts when a country's repayments capacity is inadequate, are just like sudden death traps in relation to economy. No more foreign borrowings were possible. The country's monetary system, particularly the foreign exchange situation, was in a very disastrous footing Dr. Manmohan Singh, the then Union Finance Minister (also an economist) had a great task to introduce ways and means for the recovery of the ailing monetary system. Changing of exchange rate structure was, therefore, the first weapon in his hands.

While foreign exchange reserves were not sufficient enough even for a few weeks, imports of essential goods were inevitable, particularly due to shortfall of industrial and agricultural production. Any imports cut would have crippled the economy including the transport system of the country. The country had, therefore, to attract foreign exchange on the one hand, and increase exports backed by decrease of imports on the other. Liberalisation was one of the weapons for this purpose. Developing an industrial base and increasing the industrial production were immediately required, especially in the face of a declining economic trend. We were also in need of latest technology base, greater innovation, capital formation, greater employment opportunities for our

vast majority of the unemployed manpower, latest technical know-how to suit the global market, and inflow of foreign capital. Without an appropriate liberalisation, Foreign investors were unwilling to invest in India, which was necessary for reducing external indebtedness too. The effect of increasing the inflow of foreign capital included (a) increasing production and export of goods, (b) increasing production of goods for import substitution (c) reducing external, (d) improving the quality base of the goods and services to global standards and (e) increasing the overall economic activities in the country. Indian had looked up with great expectations from its public sector units in the past. Unfortunately many of these public sector units turned themselves to be white elephants exerting tremendous pressure on the exchequer and accumulating losses. These units with high investment had low productivity, which were either to be made viable or to be disinvested. Liberalisation was the best option for this purpose.

Strong regulations and restrictions on the private sector had considerably affected industrial growth in the past, which was already noticed. Hence Mrs. Indira Gandni's Government and Mr. Rajiv Gandhi's Government had initiated certain steps for liberalisation and building up a sound technology base. Mr. Narasimha Rao's Government had to further pursue it. Sufficient protection was give to the Indian industrial sector for over four decades, and further protectionism must have retarded the economic growth-calling for a liberal path towards good economy trends so that Indian industries would grow stronger.

Trade Deficit—Incising trade deficit has been an abounding characteristic of the Indian economy ever since its political independence. In fact, political independence failed to enhance concomitant economic independence. India's share in the world market has been very negligible, while the import bill has been exceedingly growing. India's trade balance in 1990-91 was negative (-3 percent of GDP) which became more negative in later years. The trade balance in 1995-96 stood -3.2% of GDP. In 1999-2000 country's trade balance was -0.4% of GDP (Negative 4% of GDP): It was -2.1% and -2.5% respectively in 2002-03 and 2003-04.

The Path of Liberalisation—The path If liberalisation accepted to dismantle the walls of restrictions in India which has been multi-pronged. First of all, the Government has to release the economy from the restrictive rules and regulations framed by the bureaucratic minds in the garb of the socialistic pattern of society, which retarded economic growth for the past four decades. Then India needed to establish a very different image, the image of a market-

oriented economy, in the eyes of the foreign governments and investors, besides sustaining a private sector friendly image within the country. On the other hand, Government of India needed to be successful in effectively checking the twin problems of unemployment and inflation. The real task before the Government is two-fold, viz., firstly to win the confidence of the foreign investor, and secondly to allay the fears of the Indian public about the entry of the foreign investors into India in a big way and the Government's capability (rather willingness) to effectively check the problems of inflation and unemployment.

When globalisation has become the order of the day, nations have adopted the path of liberalisation. India could not isolate itself from this trend. It was, therefore, appropriate on the part of Government of India to institute and implement a strategy for economic liberalisation.

The LPG model of development which was introduced in 1991 by the then Finance Minister Dr. Manmohan Singh with a big bang was intended to charter a new strategy with emphasis on liberalisation, privatisation and globalisation. (LPG) Several major changes at the domestic level were introduced. Firstly, areas hitherto reserved for the public sector were opened to private sector. The Government intended to transfer the loss-making units to the private sector, but it failed because there were no takers for them. Instead, the Government started disinvestment of the highly profit-making PSUs and the proceeds were used to reduce fiscal deficits. Thus, due to various social constraints the Government could not carry forward its programme of privatization. Though it did succeed in liberalizing the economy to the private sector – both domestic and foreign.

Secondly, by permitting the private sector to set up individual units without taking a licence, the Government removed certain shackles which were holding back or delaying the process of private investment. Thirdly, by abolishing the threshold limit of assets in respect of MRTP companies and dominant undertakings, the Government freed the business houses to undertake investment without any ceiling being prescribed by the MRTP Commission. Obviously, considerations of promoting growth were more dominant with the Government and such issues as concentration of economic power were assigned a back seat. Fourthly, with a view to facilitate direct foreign investment, the Government decided to grant approval for direct foreign investment upto 51 percent in high priority areas. The Government could also consider proposals involving more than 51 percent equity, but such proposals would require prior

clearance of the Government. No permission was required for hiring foreign technicians, foreign testing of indigenously developed technologies, etc.

Fifthly, chronically sick public sector enterprises were referred to the Board for Industrial and Financial Reconstruction (BIFR) for the formulation of revival/rehabilitation schemes. A social security mechanism was introduced to protect the interests of workers likely to be affected by such rehabilitation packages. Sixthly, to improve the performance of public sector enterprises, greater autonomy was given to PSU managements and the Boards of public sector companies were made more professional.

Lastly, the economy was opened to other countries to encourage more exports. To facilitate the import, of foreign capital and technology and other allied imports, reduction in import duties and other barriers were brought about. LPG Model of development emphasises a bigger role for the private sector. It envisages a much larger quantum of foreign direct investment to supplement our growth process. It aims at a strategy of export led growth as against import substitution practised earlier. It aims at reducing the role of the State significantly and thus abandons planning fundamentalism in favour of a more liberal and market driven pattern of development. Critics have pointed out certain fundamental weaknesses of the LPG Model of Development.

- (a) This has a very narrow focus since it largely concentrates on the corporate sector which accounts for only 10 percent of GDP.
- (b) The model bypasses agriculture and agro based industries which are a major source of generation of employment for the masses. It did not delineate a concrete policy to develop infrastructure. Financial and technological support, particularly the infrastructural needs of agro-exports.
- (c) By permitting free entry of the multinational corporations in the consumer goods sector, the model has hit the interests of the small and medium sector engaged in the production of consumer goods. There is danger of labour displacement in the small sector if unbridled entry of MNCs is continued.
- (d) By facilitating imports, the Government has opened the import window too wide and consequently, the benefits of rising exports are more than offset by much greater rise in imports leading to a larger trade gap.
- (e) Finally the model emphasises a capital intensive pattern of development and there are serious apprehensions about its employment-potential. It is being made out that it may cause unemployment in the short run but will take care

of it in the long run. But how long is the long-run is not specified. Moreover, an economy in which the growth of labour force is taking place at the rate of about 1.8 percent per annum, the implications of the model in terms of slowing down the rate of growth of employment are of serious nature.

Some have argued that the LPG Model has followed the East Asian Miracle which was demonstrated by Japan, South Korea, Taiwan and to some extent Indonesia, Malaysia and China. This is not correct. Japan did not follow the IMF-World Bank Model based on free market economy, open door policies and liberalisation. Japan, in fact, practised limited operation of market mechanism with the State playing an active role in guiding the economy for the welfare of the community. This independent path followed by Japan was imitated by South Korea and Taiwan. Malaysia and Indonesia also succeeded on this path for a few years.

The Chinese growth model, for instance, is rooted in its own traditions and its decision to globalise is motivated by the desire to use foreign markets as an instrument to resolve numerous internal bottlenecks.

China still follows the path of self-reliance, though it is not a closed economy. For China self-reliance is the 'motor of growth', and China has experimented a simple balanced two-way flow of goods and services and capital with the rest of the world. Chinese Model, therefore, cannot be classified as a neo-classical liberalisation model. It is a model of its own kind which combines an open economy with self-reliance and avoids an excessive dependency syndrome.

LPG Model has followed the IMF-World Bank prescription of stabilisation and structural adjustment. When considered in the light of the experience of Latin America, Africa and East Asian Countries, it raises serious doubts in the minds of the people whether we are following the correct path of development. Dudley Seers has rightly suggested three parameters by which the stage of development of a country can be measured. They are: what has been happening to poverty? to unemployment? And to inequality? The experience of a decade or more of LPG Model does not provide conclusive evidence of substantial improvement of these parameters. Rather some of them have become worse.

References -

1. G. S. Batra, Emerging trend in Globalisation, Liberalisation and privatization (edited) 17-36, 2001.
2. "Economic Reforms in India – Lessons from current Experience" Southern Economist vol, 44, No.4, July 1, 2005
3. Mukesh Ambani, "Imperatives for India in a Globalised world", The Indian Journal of commerce, vol.58, No.1, Jan-Mar.2005.
4. Datt Ruddar and Sundharam K.P.S., Indian Economy, S, Chand and Company Ltd. New Delhi 2008.
5. Mishra and Puri, Indian Economy, Himalayan Publishing House, New Delhi 2007.
6. Government of India, Economic Survey 2001-02, 2002-03, 2003-04, 2004-05, 2005-06, 2006-07, 2007-08 New Delhi.