L.P.G. POLICY OF INDIA

Liberalisation-

Liberalisation refers to the slackening of government regulations. The economicliberalisation in India denotes the continuing financial reforms which began since July24, 1991. orin other words you can say that Liberalization means elimination of statecontrol over economic activities. It implies greater autonomy to the businessenterprises in decision-making and removal of government interference. It wasbelieved that the market forces of demand and supply would automatically operate tobring about greater efficiency and the economy would recover. This was to be doneinternally by introducing reforms in the real and financial sectors of the economy and externally by relaxing state control on foreign investments and trade.

Objectives

To boost competition between domestic businesses

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

Impacts of Liberalisation in India

Positive impacts of liberalisation in India

1) Free flow of capital: Liberalisation has improved flow of capital into the countrywhich makes it inexpensive for the companies to access capital frominvestors. Lower cost of capital enables to undertake lucrative projects which they may not have beenpossible with a higher cost of capital pre-liberalisation, leading to higher growth rates.

2) Stock Market Performance: Generally, when a country relaxes its laws, taxes, the stock market values also rise. Stock Markets are platforms on which CorporateSecurities can be traded in real time. Impact of FDI in Banking sector: Foreigndirect investment allowed in the banking and insurance sectors resulted in decline of government's stake in banks and insurance firms.

3) Political Risks Reduced: Liberalisation policies in the country lessens political risks to investors. The government can attract more foreign investment throughliberalisation of economic policies. These are the areas that support and foster areadiness to do business in the country such as a strong legal foundation to settledisputes, fair and enforceable laws.

4) Diversification for Investors: In a liberalised economy, Investors gets benefit bybeing able to invest a portion of their portfolio into a diversifying asset class.

5) Impact on Agriculture: In the area of agriculture, the cropping patterns hasundergone a huge modification, but the impact of liberalisation cannot be properlymeasured. It is observed that there are still all-pervasive government controls andinterventions starting from production to distribution for the produce

Negative impacts of liberalisation in India-

1) Destabilization of the economy: Tremendous redistribution of economic power and political power leads to Destabilizing effects on the entire Indian economy. Threat from Multinationals: Prior to 1991 MNC's did not play much role in the Indian economy. In the pre-reform period, there was domination of public enterprises in the economy. On account of liberalisation, competition has increased for the Indian firms. Multinationals are quite big and operate in several countries which has turned out athreat to local Indian Firms.

2) Technological Impact: Rapid increase in technology forces many enterprises and small scale industries in India to either adapt to changes or close their businesses.

3) Mergers and Acquisitions: Acquisitions and mergers are increasing day-by-day. In cases where small companies are being merged by big companies, the employeesof the small companies may require exhaustive re-skilling. Re-skilling durationwill lead to non-productivity and would cast a burden on the capital of the company.

4) Impact of FDI in Banking sector: Foreign direct investment allowed inthebanking and insurance sectors resulted in decline of government's stake in banks andinsurance firms.

Privatisation –

Privatisation refers to the participation of private entities in businesses and servicesand transfer of ownership from the public sector (or government) to the private sector as well. Privatization is the transfer of control of ownership of economic resources fromthepublic sector to the private sector. It means a decline in the role of the public sector as there is a shift in the property rights from the state to private ownership. Thepublic sector had been experiencing various problems , since planning, such as lowefficiency and profitability, mounting losses, excessive political interference, lackof autonomy, labour problems and delays in completion of projects. Hence to remedy this situation with Introduction of NIP'1991. Another term for privatizationis Disinvestment. The objectives of disinvestment were to raise resources through sale of PSUs to be directed towards social welfare expenditures, raising efficiency of PSUs through increased competition, increasing consumer satisfaction with better quality goods and services, upgrading technology and most importantly removing political interference.

Objective of Privatisation

Increased inflow of FDI improves the financial strength of the economy.

- Privatisation aims at providing a strong base to the inflow of FDI.
- Providing strong momentum to the inflow of FDI.

Impact of Privatisation-

Positive Aspect-

1. Improved efficiency:- The main argument for privatisation is that privatecompanies have a profit incentive to cut costs and be more efficient. If youworkfor a government run industry managers do not usually share in any profits. However, a private firm is interested in making a profit, and so it is more likelytocut costs and be efficient. Since privatisation, companies such as BT, and BritishAirways have shown degrees of improved efficiency and higher profitability.

2. Lack of political interference:- It is argued governments make poor economicmanagers. They are motivated by political pressures rather than sound economicand business sense. For example, a state enterprise may employ surplus workerswhich is inefficient. The government may be reluctant to get rid of the workersbecause of the negative publicity involved in job losses. Therefore, state-ownedenterprises often employ too many workers increasing inefficiency.

3. Short term view:- A government many think only in terms of the next election. Therefore, they may be unwilling to invest in infrastructure improvements whichwill benefit the firm in the long term because they are more concerned about projects that give a benefit before the election. It is easier to cut public sector investment than frontline services like healthcare.

4. Shareholders:- It is argued that a private firm has pressure fromshareholders toperform efficiently. If the firm is inefficient then the firm could be subject toatakeover. A state-owned firm doesn't have this pressure and so it is easier for themto be inefficient.

5. Increased competition:- Often privatisation of state-owned monopolies occursalongside deregulation – i.e. policies to allow more firms to enter the industry and increase the competitiveness of the market. It is this increase in competitionthat However, privatisation doesn't necessarily increase competition; it dependson the nature of the market. e.g. there is no competition in tap water becauseit is a natural monopoly. There is also very little competition within the rail•can be the greatest spur to improvements in efficiency. For example, there is nowmore competition in telecoms and distribution of gas and electricity. industry.

6. Government will raise revenue from the sale:- Selling state-owned assets tothe private sector raised significant sums for the UK government in the 1980s. However, this is a one-off benefit. It also means we lose out on future dividendsfrom the profits of public companies.

Negative Aspect-

1. Natural monopoly:- A natural monopoly occurs when the most efficient number of firms in an industry is one. For example, tap water has very significant fixed costs. Therefore there is no scope for having competition amongst several firms. Therefore, in this case, privatisation would just create a private monopolywhich might seek to set higher prices which exploit consumers. Therefore it isbetter to have a public monopoly rather than a private monopoly which can exploit the consumer.

2. Public interest:- There are many industries which perform an important publicservice, e.g., health care, education and public transport. In these industries, theprofit motive shouldn't be the primary objective of firms and the industry. For example, in the case of health care, it is feared privatising health care wouldmeana greater priority is given to profit rather than patient care. Also, in an industrylikehealth care, arguably we don't need a profit motive to improve standards. Whendoctors treat patients, they are unlikely to try harder if they get a bonus.

3. Government loses out on potential dividends.:- Many of the privatisedcompanies in the UK are quite profitable. This means the government misses out on their dividends, instead going to wealthy shareholders.

4. Problem of regulating private monopolies.:- Privatisation creates privatemonopolies, such as the water companies and rail companies. These needregulating to prevent abuse of monopoly power. Therefore, there is still needfor government regulation, similar to under state ownership.

5. Fragmentation of industries:- In the UK, rail privatisation led to breakingupthe rail network into infrastructure and train operating companies. This led toareaswhere it was unclear who had responsibility. For example, the Hatfield rail crashwas blamed on no one taking responsibility for safety. Different rail companieshas increased the complexity of rail tickets.

6. Short-termism of firms:-As well as the government being motivated byshort term pressures, this is something private firms may do as well. To pleaseshareholders they may seek to increase short term profits and avoid investinginlong term projects. For example, the UK is suffering from a lack of investment innew energy sources; the privatised companies are trying to make use of existingplants rather than invest in new ones.

Globalisation .

Globalization essentially means integration of the national economy with the world economy. It implies a free flow of information, ideas, technology, goods and services, capital and even people across different countries and societies. It increasesconnectivity between different markets in the form of trade, investments and cultural exchanges. The concept of globalization has been explained by the IMF (International Monetary Fund) as 'the growing economic interdependence of countries worldwide through increasing volume and variety of cross border transactions in goods and services and of international capital flows and also through the more rapid and wide spread diffusion of technology.'

Following its freedom on August 15, 1947, the Republic of India stuck to socialisticeconomic strategies. In the 1980s, Rajiv Gandhi, the then Prime Minister of India, started a number of economic restructuring measures. In 1991, the countryexperienced a balance of payments dilemma following the Gulf War and the downfall of the erstwhile Soviet Union. The country had to make a deposit of 47 tons of goldtothe Bank of England and 20 tons to the Union Bank of Switzerland. This wasnecessary under a recovery pact with the IMF or International Monetary Fund. Furthermore, the International Monetary Fund necessitated India to assume asequence of systematic economic reorganisations. Consequently, the then PrimeMinister of the country, P V Narasimha Rao initiated groundbreaking economicreforms. However, the Committee formed by Narasimha Rao did not put intooperation a number of reforms which the International Monetary Fund looked for. Dr Manmohan Singh, the then Prime Minister of India, was the Finance Minister of the Government of India. He assisted. Narasimha Rao and played a key role inimplementing these reform policies.

Advantages of Globalisation in India

1) Increase in Employment: With the opportunity of Special Economic Zones(SEZ), there is an increase in the number of new jobs availability. Including Export Processing Zones (EPZ) Centre in India is very useful in employing thousands of people. Another additional factor in India is cheap labour. This feature motivates big companies in the west to outsource employees from other region and cause more employment.

2) Increase in Compensation: After Globalisation, the level of compensationhasincreased as compared to domestic companies due to the skill and knowledge a foreign company offers. This opportunity also emerged as an alteration of the management structure.

3) High Standard of Living: With the outbreak of Globalisation, Indian economyand the standard of living of an individual has increased. This change is notifiedwiththe purchasing behaviour of a person, especially with those who are associatedwithforeign companies. Hence, many cities are undergoing a better standard of livingalong with business development.

4) Extension of Market- Due to globalisation any company can extend their limitsthe size of business. Now no nation can any longer hope to lead an existence of solitude and isolation in which only domestics industries can function.

5) Development of Infrastructure- Its help in the improvement and development of infrastructure. For exmple, growing financial facilities, faster communication, rapid technology changes, new sources of industrial energy etc

. 6) Development of healthy competition. Integration of global markets reduce smanufacturing costs, improves quality, reduces processing time ,and business becomes dominant drivers.

7) Multiplicity of Manufacturing Plants- In globalisation, an MNC by operating In more than one country gains research and development production ,marketing and financial advantages in its cost and reputation, that are not available to purely domestic marke teers.

Disadvantages of Globalisation-

1. Inequality: Globalisation has been linked to rising inequalities in income andwealth. Evidence for this is the growing rural–urban divide in countries such as China, India and Brazil. This leads to political and social tensions and financial in stability that will constrain growth. Many of the world's poorest people do not have access to basic technologies and public goods. They are excluded from the benefits.

2. Inflation: Strong demand for food and energy has caused a steep rise incommodity prices. Food price inflation (known as agflation) has placed millions of the world's poorest people at great risk.

3**. Vulnerability to external economic shocks –** national economies are more connected and interdependent; this increases the risk of contagion i.e. an external event somewhere else in the world coming back to affect you has risen / making a country more vulnerable to macro-economic problems elsewhere

4. Threats to the Global Commons: Irreversible damage to ecosystems, landdegradation, deforestation, loss of bio-diversity and the fears of a permanent shortage of water afflict millions of the world's most vulnerable

5. Trade Imbalances: Global trade has grown but so too have trade imbalances. Some countries are running big trade surpluses and these imbalances are creatingtensions and pressures to introduce protectionist policies such as new forms of import control. Many developing countries fall victim to export dumping by producers in advanced nations (dumping is selling excess output at a price below the unit cost of supply.)

6. Unemployment: Concern has been expressed by some that capital investment andjobs in advanced economies will drain away to developing countries as firms switchtheir production to countries with lower unit labour costs. This can lead to higher levels of structural unemployment.

7. Standardisation: Some critics of globalisation point to a loss of economic andcultural diversity as giant firms and global multinational brands dominate domesticmarkets in many countries.