Liberalization, Privatization, Globalization

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General Economics

Reasons for implementing LPG

- **Excess of consumption and expenditure over revenue resulting in heavy government borrowings.**
- **Growing inefficiency in the use of resources.**
- **Over protection to industry**
- **Mismanagement of firms and the economy**
- **Mounting losses of public sector enterprises**

Reasons for implementing LPG

- **Various distortions like poor technological development shortage of foreign exchanges; and imprudent borrowings from abroad and mismanagement of foreign exchange reserves.**
- **Low foreign exchange reserves.**
- **Burden of national debt.**
- **Inflation.**

Liberalization

- **Liberalization refers to relaxation of previous government restrictions usually in areas of social and economic policies. Thus, when government liberalizes trade it means it has removed the tariff, subsidies and other restrictions on the flow of goods and services between countries.**

Privatisation

- **It refers to the transfer of assets or service functions from public to private ownership or control and the opening of the hitherto closed areas to private sector entry. Privatisation can be achieved in many ways- franchising, leasing, contracting and divesture.**

Conditions for privatisaton

- **Liberalisation and de-regulation of the economy is an essential pre-requisite if privatisation is to take off and help realize higher productivity and profits.**

Conditions for privatisaton

- **Capital markets should be sufficiently developed to be able to absorb the disinvested public sector shares.**

Arguments in favour of privatisation

- **Privatisation will help reducing the burden on exchequer.**
- **It will help the profit making public sector units to modernize and diversify their business.**
- **It will help in making public sector units more competitive.**

Arguments in favour of privatisation

- **It will help in improving the quality of decision-making of managers because their decisions will be made without any political interference.**

Arguments in favour of privatisation

- **Privatisation may help in reviving sick units which have become a liability on the public sector.**
- **Without government financial backing, capital market and international market will force public sector to be efficient**

Arguments against privatisation

- **Privatisation will encourage growth monopoly power in the hands of big business house. It will result in greater disparities in income and wealth.**
- **Private enterprise may not show any interest in buying shares of loss-making and sick enterprises.**

Arguments against privatisation

- **Privatisation may result in lop-sided development of industries in the country.**
- **The limited resources of the private individuals cannot meet some of the vital tasks which alter the very character of the economy.**
- **The private sector may not uphold the principles of social justice and public welfare.**

Privatization

- **Privatization offers both opportunities and threats to the economy. We have to privatize in such a manner that we make the maximum opportunities while at the same time minimizing the threats to the economy.**

Disinvestment

- **Disinvestment means disposal of public sector's unit's equity in the market or in other words selling of a public investment to a private entrepreneur. It means selling of government share in one PSU to other PSUs or private sector or banks.**

Disinvestment

- **In India, disinvestment has progressed slowly. It has been carried out in a hasty, unplanned and hesitant manner. As a result, the progress has been quite poor.**

Privatization and Disinvestment in India

- **Privatization in India generally is in the form of disinvestment of equity. In general, here privatisation has not led to 100% transfer of control from public sector to private sector unit. Only in exceptional cases, 100% privatization has taken place (e.g. Centaur Hotel).**

Example of Privatization in India

- **Lagan jute machinery company limited (LJMC).**
- **Modern food industries limited (MFIL)**
- **Bharat aluminium company limited (BALCO)**
- **Hotel Corporation of India limited (HCI)**
- **Hindustan Zinc limited (HZL)**
- **Paradeep Phosphates Limited (PPL)**

Methods of Disinvestment

- **Initially, equity was offered to retail investors through domestic public issues. This was followed by issuance of the Global Depository Receipts (GDRs) to tap the overseas markets**.

Methods of Disinvestment

- **Other methods includes cross-holding (the government simply selling part of its shares in one PSU to other PSUs), warehousing (government's own financial institutions buying government's stake in select PSUs and holding them until and third buyer emerged) and retaining golden share (retaining government's stake up to 26% in the PSU to protect its interest).**

Methods of Disinvestment

- **Of late, the government was pursuing the strategic sale method. Under this method, the government sells a major portion of its stake to a strategic buyer and also gives over the management control.**

Methods of Disinvestment

- **Under strategic sales method, disinvestment price would be market based and not prefixed, PSUs share’s sale would be under the department of Disinvestment and disinvestment would be delinked from the union budget exercise.**

Methods of Disinvestment

- **Presently the government has decided to call off the disinvestment of stake through strategic sale in 13 profit-making central public sector enterprises. It is considering the public offer route to sell minority stakes in these enterprises. Of late (in 2005-06), it has resorted to 'Differential Pricing Method' and sold the shares of PSUs to public sector financial institution and banks.**

Globalisation

- **Globalisation means integrating the domestic economy with the world economy. It is a process which draws countries out of their insulation and makes them join rest of the world in its march towards a new world economic order.**

Globalisation

- **It involves increasing interaction among national economic system, more integrated financial markets, economies of trade, higher factor mobility, free flow of technology and spread of knowledge throughout the world.**

Cases for Globalisation

- **It is argues that Globalisation of under developed countries will improve the allocative efficiency of resource, reduce the capital output ratio and increase labour productivity, help to develop the export spheres and export culture, increase the inflow of capital, updated technology that gives a boost to the average growth rate of the economy.**

Cases for Globalisation

- **It will help to restructure the production and trade pattern in a capital scarce, labour abundant economy in favour of labour-intensive goods and techniques.**
- **Foreign capital will be attracted and with its entry, updated technology will also enter the country.**

Cases for Globalisation

- **With the entry of foreign competition and the removal of import tariff barriers, domestic industry will be subject to price and quality improving effects in the domestic economy.**

- **It is also believed that the efficiency of banking and financial sectors will improve, as there will be competition from foreign capital and foreign banks.**

Cases for Globalisation

- **It is believed that the main effects of integration will be felt in the industrial and related sectors. At result cheaper and high quality consumer goods will be manufactured at home. Besides, employment opportunities would also go up.**

Cases against Globalisation

- **The globalisation process is in essence a tremendous redistribution of economic power at the world level which will increasingly translate into a redistribution of political power.**
- **One study reveals that in the globalising world the economics of the world are ironically moving away from one another more than coming together.**

Cases against Globalisation

- **With the lightening speed at which globalisation is taking place, it is increasing the pressure on economies for structural and conceptual readjustments to a breaking point.**
- **It is becoming hard for the countries to ask their public to go through the pains and uncertainties of structural adjustment of the sake of benefits yet to come.**

Cases against Globalisation

- **Globalisation is helping more the developed economies than the developing economies.. Like India, it is argued that it is true that letting in Cokes and Pepsis have led to opening doors for INTEL, but the sum total of their investment has been very less in relation to their investment abroad. None of the multinationals has set up manufacturing plants in India or signed any technology transfer agreement with any Indian company.**

Measures towards Globalisation

- **Convertibility of Rupee: To make the currency fully convertible i.e., allow it to determine its own exchange rate in the international market without any official intervention.**
- **Import Liberalisation: As per the recommendation of the World Bank, free trade of all items except negative list of imports and exports has been allowed**.

Measures towards Globalisation

- **Opening the economy to foreign capital: The government has taken a number of measures to encourage foreign capital in India. Many facilities and incentives have been offered to the foreign investors and non-resident Indians in the new economic policy**.

Effects of Globalisation of Indian economy

- **India's share in the world 'export' which had fallen 0.53% in 1991 from 1.78% per cent in 1950, has reversed trends and has improved to 1% in 2005.**

Effects of Globalisation of Indian economy

- **Our foreign currency reserves which had fallen to barely one billion U.S. dollars in June, 1991 rose substantially to about 180 billion U.S dollars in March 2007**.

Effects of Globalisation of Indian economy

- **Exporters are responding well to sweeping reforms in exchange rate and trade policies. The average growth of export has been more than 20% per annum since 2002-03.**
- **Exports now finance nearly 65% of imports, compared to only 60% in the latter half of the eighties.**

Effects of Globalisation of Indian economy

- **The current account deficit was over 3% of GDP in 1990-91. In 2004-05 and 2005-06, we again had current account deficit of (-) 0.4 and (-) 1.1 per cent respectively.**
- **Our external debt crises reduced from $8 billion to $3 billion from 1990-91 to 1996-2006 respectively.**
- **Markets have started responding to the movements abroad**

Effects of Globalisation of Indian economy

- **International confidence in India has been restored.**
- **Consumer are benefited through large variety of consumer goods, improved quality of goods and in some cases and reduced price of consumer durable.**
- **Programmes of quality management and research and development are systematically conducted by corporate sector.**

Main organization for facilitating globalisation

- **There are many international organisation which have facilitated the process of globalisation. We shall study three main organisations here. These are**
- **International Monetary Fund (IMF)**
- **World Bank**
- **World Trade Organisation (WTO)**

International Monetary Fund

- **IMF was organized in 1946 and commenced its operation in March 1947. The main objectives:**

- **The elimination or reduction of existing exchange control**

International Monetary Fund

- **The establishment and maintenance of currency convertibility with stable exchange rate**
- **The widest extension of multilateral trade and payments.**
- **The solving of short-term balance of payment problems faced by its member nations**

Function of IMF

- **It functions as a short-term credit institution**
- **It provides machinery for the orderly adjustment of exchange rates.**
- **It is a reservoir of the currencies of all the members nation who can borrow the currency of other nations.**

Function of IMF

- **It provides machinery for international consultations.**

- **It monitors economic and financial development of its members and provides policy advice aimed at crisis preventions.**

The World Bank

- **The international Bank for Reconstruction and Development (IBRD) more popularly known as the world bank was formed as a part of the deliberations at Bretton woods in 1945. The World Bank was floated in order to give loan to member's countries, initially for the reconstruction of their (world) war-ravaged economies, and later for the development of the economies of the poorer member countries.**

Objectives of World Bank

- **Investing in the people, particularly through basic health and education.**
- **Focusing on social development.**
- **Protecting the environment**
- **Supporting and encouraging private business development.**
- **Promoting reforms to create a stable macro-economic environment, conducive to investment and long-term planning.**

Functions of World Bank

- **To help its members countries in the reconstruction and developmental of their territories by facilitating the investment of capital for productive purposes.**
- **To encourage private foreign investment and credit by providing guarantee of repayment of the private investors.**
- **To promote the long-term balanced growth of international trade and the maintenance of equilibrium in balance of payment of its member countries.**

The World Trade Organisation

- **The WTO came in to existence on 1st January,1995. The WTO is a powerful body which broadly aims at making the whole world a big village where there is free flow of goods and services and where there are no barriers to trade.**

Features of WTO

- **The WTO is the main organ implementing the Multilateral Trade Agreements.**
- **The WTO is global in its membership.**
- **It is the forum for negotiations among its member.**

Features of WTO

- **It is a full-fledged international organisation in its own right**

- **The WTO has legal personality.**

- **The decision-making under WTO is carried out by consensus**.

Functions of WTO

- **The WTO shall facilitate the implementation, administration and operation of world trade agreements.**

- **The WTO shall provide the forum for trade negotiations among its members countries.**

Functions of WTO

- **The WTO shall handle trade disputes.**
- **The WTO shall monitor national trade policies.**
- **It shall provide technical assistance and training to developing countries**

Multiple Choice Question
Question 1

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  - **divestiture**
  - **denationalization**
  - **Franchising**
  - **all the above**

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Question 2

- Which of the following factors cause many governments to undertake programmes of public sector reforms, according to Prof. Samuel Paul?
  - economic inefficiency in the production activities of the public sector
  - ineffectiveness in the provision of goods and service
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Question 3

- Reasons for privatization are
  - inefficiency indifference and corruption
  - indifference and corruption
  - inefficiency and irresponsibility
  - inefficiency, indifference, irresponsibility and corruption

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Question 4

- **Globalization means**
  - **domestic liberalization**
  - **external sector liberalization**
  - **both (a) and (b)**
  - **none of the above**

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  - domestic liberalization
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Question 5

- **External sector liberalization means**
  - **relaxing restriction on international flow of goods and services**
  - **relaxing restriction on production, investment and prices**
  - **increasing the roll of market**
  - **relaxing restrictions on international flow of goods, services, technology and capital.**

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Question 6

- The main causes for economic reforms
  - growing inefficiency in the use of resources
  - over production of industry
  - mismanagement of firms and the economy
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Question 7

- **Industrial licensing was abolished for all projects except for**
  - **12 industries**
  - **14 industries**
  - **18 industries**
  - **20 industries**

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Question 8

- **How many industries are registered under the public sector?**
  - **5 industries**
  - **3 industries**
  - **6 industries**
  - **9 industries**

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Question 9

- Up to-------------------------- direct foreign investment allowed in high priority industries
  - 49%
  - 55%
  - 51%
  - 50%

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Question 10

- **How many percent of FDI were allowed in Banking sector?**
  - **30%**
  - **49%**
  - **60%**
  - **51%**

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Question 11

- **The different facets of new economic reform can be summarized as**
  - **disinvestment in public sector, delicensing of private industries**
  - **reducing agriculture subsidies and reducing tax rates**
  - **liberalization, privatization and globalization**
  - **containing fiscal deficit and reducing money supply**

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Question 12

- **New Economic Reform aims at the following objectives**
  - **privatization**
  - **liberalization**
  - **Globalization**
  - **all the above**

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Question 13

- Financial sector reforms mainly relate to
  - banking sector
  - insurance sector
  - both (a) and (b)
  - transport sector

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Question 14

- Expand FRA
  - Foreign ratio agreement
  - Foreign rate agreement
  - Forward ration agreement
  - Forward rate agreement

Question 14

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Question 15

- **The rupee was devalued twice in -----------------**
  - **June 1991**
  - **August 1991**
  - **September 1991**
  - **July 1991**

Question 15

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Question 16

- **Foreign Exchange Regulation Act was passed in the year**
  - **1973**
  - **1971**
  - **1972**
  - **1974**

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  - **1971**
  - **1972**
  - **1974**

Question 17

- **Expand QR**
  - **Quantitative Restrictions**
  - **Quota Restriction**
  - **Both (a) and (b)**
  - **None of the above**

Question 17

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  - Quantitative Restrictions
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  - None of the above

Question 18

- The QR were removed on -------------------
  - 720 items
  - 730 items
  - 710 items
  - 714 items

Question 18

- **The QR were removed on ------------------**
  - **720 items**
  - **730 items**
  - **710 items**
  - **714 items**

Question 19

- **Expand SDR**
  - **Securities drawing rights**
  - **Special draw rights**
  - **Special drawing rights**
  - **None of the above**

Question 19

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  - Securities drawing rights
  - Special draw rights
  - Special drawing rights
  - None of the above

Question 20

- Disinvestment means
  - disposal of public sector's unit's equity in the market
  - relaxation of previous government social and economic policies
  - transfer of assets
  - none of the above

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Question 21

- Expand TRIPs
  - Trade related intelligent property rights
  - Trade related intellectual property rights
  - Trade related intellectual prosperity rights
  - All the above

Question 21

- **Expand TRIPs**
  - **Trade related intelligent property rights**
  - **Trade related intellectual property rights**
  - **Trade related intellectual prosperity rights**
  - **All the above**

THE END

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