Transformation of Indian Economy (With special reference to Liberalization, Privatization & Globalization)

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Abstract **:** A number of significant economic changes introduced by number of countries all the world over, the encouraging results of the liberalization measures introduced in 1980s by the Government of India, and the precarious economic situation that prevailed during the later part 80s have encouraged and forced the then Congress government, which came back to power at the center, under the leadership of Shri. P.V. Narasimha Rao— a non-Nehru family member, to take some bold measures to rejuvenate the economy and to accelerate the pace of development. In this background, the Government of India announced its New Industrial Policy (NIP or IP) on July 24, 1991. The important objectives are: (a) to correct the distortions that may have crept in, and consolidate the strengths built on the gains already made, (b) to maintain sustained growth in the productivity and gainful employment, and (c) to attain international competitiveness. The focus of this article is to understand the New Economic Policy of 1991 as well as to understand its impact on various constituents of Indian Economy.

Index Term **- Liberalization, Privatization, Globalization, New Economic Policy**

I. Objective of the Study

- To understand the concept of liberalization, privatization and globalization.
- To study the Impact of New Economic Policy on various constituents of Indian Economy.

II. Limitation of the Study

- The data used for this study is secondary in nature. The sources of data for this research paper includes the literature published by Reserve Bank of India, Press Information Bureau, Government of India, various magazines, journals, books dealing with this issue and research papers.
- The focus of study is limited to few constituents of Indian Economy.

III. Literature Review

- Mukeshkumar(2014) in their paper entitled " Impact of Economic reforms on India" made study withobjective to find out the impact of Globalization on India and also study Performance of the corporate sector after 1991. Finding shows that during the 11-year period 1995-2006 India's merchandise exports increased at the rate of 13.3 percent per annum and corporate sectors growth rate in sales and net profits is increased.
- Dr. Meenu (2013) in their paper entitled "Impact of Globalization and Liberalization on Indian Administration" study was made with objective to analyse the impact of globalization and liberalization on different aspects of Indian administration and changes introduced at different levels in Indian administration due to globalization and liberalization.
- Dr.Thakur B., Sharma V K., Som Raj (2012) in their paper entitled"Had Economic Reforms had an Impact on India's Industrial Sector?" threw the light on impact of Economic reforms on Industrial sector. Findings show that Economic reforms had started showing positive impact on current Indian industrial performance in the last few years in terms of increase in level of productivity and reasonable rate of growth of industrial sector because of liberalization.
- Adarsh Kishore (2002) in their paper entitled "Towards an Indian Approach to Globalisation"It is a complex process that is having a massive impact on living standards across both the developed and developing world. In general, the balance of evidence suggests that globalization is helping to reduce poverty and raise living standards.

IV. Background

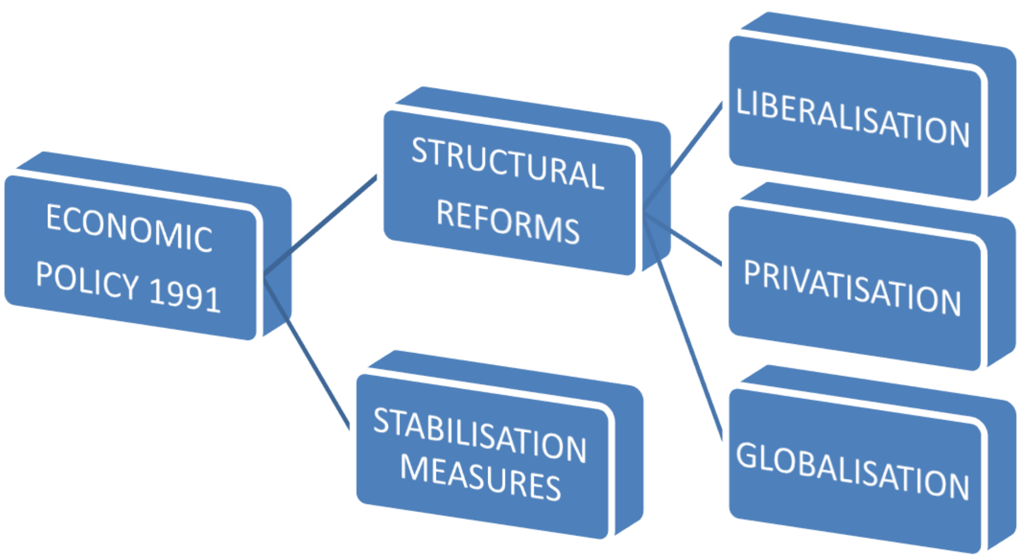
Rajiv Gandhi's government initiated the policy of liberalization since mid-80s. The liberalization initiatives have been undertaken in India with a view to increase a production, improve quality and get access to market for products and services abroad. Radical liberalization or globalization measures have been brought in since July 1991 to make the Indian economy progressively market oriented and integrate it with the emerging global economy. These measures include reduction and rationalization of excise duty and customs duties, delicensing of several drug and pharmaceutical products, ready access to import of raw material and capital goods and so on. It has created an environment conducive to entrepreneurship, investment and innovation. Indian industries have started to attract foreign portfolio investment and equity participation in new ventures.

V. Introduction

India was facing a lot of crisis during 1980's. By 1985, India had started having balance of payments problems. This is due to more expenditure by the government whereas the income generated was less. In addition to this, there were huge disparities between income and expenditure. Indian economy was in deep crisis in July 1991, when foreign currency reserves had plummeted to almost $1 billion; Inflation had roared to an annual rate of 17 percent; fiscal deficit was very high and had become unsustainable; foreign investors and NRIs had lost confidence in Indian Economy. Capital was flying out of the country and we were close to defaulting on loans. Along with these bottlenecks at home, many unforeseeable changes swept the economies of nations in Western and Eastern Europe, South East Asia, Latin America and elsewhere, around the same time. These were the economic compulsions at home and abroad that called for a complete overhauling of our economic policies and programs.

At that point of time, majority of the industrial enterprises were the public sector undertakings (PSUs), have failed to achieve the desired result. Of course, a number of factors either internal or external, controllable or non- controllable are responsible for this peperilous performance. A look at the history of PSUs in the country reveals the continuous expansion in the role of PSUs. Consequently, a number of enterprises have been established and huge amount of borrowed capital has been employed by the state even in the non-core, non-strategic and not so essential areas. Hence, the state has made a number of changes in its New Industrial Policy announced on July 24, 1991.

"There is no time to lose. Neither the Government nor the Economy can live beyond its means year after year. The room for, maneuvers to live on borrowed money or time, does not exist anymore. We need to expand the scope and the area for the operation of market forces." — Dr. Manmohan Singh. Budget Speech, July 24, 1991.



The New Economic Policy consists of certain stabilization measures as well as structural reforms. The stabilization measures were the short term measures aimed at solving the immediate cause of the 1991 economic crisis such as correcting the weakness which resulted in the balance of payments crisis and steps to bring the inflation under control. The structural reforms are long term measures aimed at improving the efficiency of the economy and increasing its international competitiveness by removing the rigidities in various segments of the Indian economy. These reforms fall under three leads:

1. Liberalization

2. Privatization

3. Globalization

VI. Liberalization

Liberalisation refers to end of license, quota and many more restrictions and controls which were put on industries before 1991. The basic aim behind this was to put an end to those restrictions which became the hindrances in the development and growth of the nation. The loosening of government control in a country and when private sector companies started working without or with fewer restrictions and government allow private players to expand for the growth of the country depicts liberalization in a country.

The objective behind the Liberalization Policy was to increase competition amongst domestic industries, to encourage foreign trade, enhancement of foreign capital and technology, to expand global market frontiers and to reduce the debt burden of the nation.

VII. Privatization

The revolution of privatization started in 1980 and then it spread over many parts of the world. Several countries are privatizing their public sector enterprises. India is not an exception to it. Privatization was meant to improve the performance of public enterprises. Privatization techniques have been tried in countries like Great Britain, China, US, Turkey, Brazil, Mexico, Japan, etc. Privatization, in the narrow sense, means transfer of ownership or sale of public enterprises to private players.

It is the increment of the dominating role of private sector companies and the reduced role of public sector companies. In other words, it is the reduction of ownership of the management of a government-owned enterprise. The objective behind it was to improve the financial situation of the government by raising the funds from disinvestment, reduce the workload of PSUs, increases the efficiency of government organizations and to create healthy competition in the society. Government companies can be converted into private companies in two ways either by disinvestment or by withdrawal of governmental ownership and management of public sector companies. There are different forms of **Privatization.**

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

VIII. Globalization

Globalization has many meanings depending on the context and on the person who is talking about. Though the precise definition of globalisation is still unavailable, a few definitions are worth viewing, Guy Brainbant: says that the process of globalisation not only includes opening up of world trade, development of advanced means of communication, internationalisation of financial markets, growing importance of MNC's, population migrations and more generally increased mobility of persons, goods, capital, data and ideas but also infections, diseases and pollution. The term globalization refers to the integration of economies of the world through uninhibited trade and financial flows, as also through mutual exchange of technology and knowledge. Ideally, it also contains free inter-country movement of labour. In context to India, this implies opening up the economy to foreign direct investment by providing facilities to foreign companies to invest in different fields of economic activity in India, removing constraints and obstacles to the entry of MNCs in India, allowing Indian companies to enter into foreign collaborations and also encouraging them to set up joint ventures abroad; carrying out massive import liberalisation programs by switching over from quantitative restrictions to tariffs and import duties, therefore globalization has been identified with the policy reforms of 1991 in India.

IX. Impact of New Economic Policy on various constituents of Indian Economy

- ✓ **Foreign Direct Investment (FDI)**

India has already marked its presence as one of the fastest growing economies of the world. It has been ranked among the top 3 attractive destinations for inbound investments. Since 1991, the regulatory environment in terms of foreign investment has been consistently eased to make it investor-friendly. India has also firmly established itself as a lucrative foreign investment destination, with foreign capital inflows of over US$ 31 billion in 2015 - surpassing the US and China. India has allowed 100% FDI in medical services, Telecom sector, and single brand retail etc.FDI cap increased in insurance & sub-activities from 26% to 49% and also in Private Sector Banking- Except branches or wholly owned subsidiaries (74%) FDI is allowed and in Public sector banking 20% FDI is allowed under Make in India scheme. In 1991FDI inflow was 408crores only but after India has made those reforms of Globalization and Privatization and free entry policy as a result FDI inflow in India was 106,693 Crores in 2015.

- ✓ **Labour productivity and wage inequality**

One of the major explanations put forward for this rising wage inequality is the rise in the relative demand for skilled labour due to the rise in foreign direct investment (FDI), higher international trade and skill-biased technological change. Higher FDI in an industry may raise labour productivity and affect wage inequality. FDI affects labour productivity both directly as well as indirectly. Foreign firms are found to have higher labour productivity vis-à-vis domestic firms and are expected to have spill-over effects, which occur either through learning process or through competitive pressure. However, many studies have found that foreign ownership is associated with skill biased technology, which improves the relative position of skilled workers. Technological spillovers to domestic firms further add to the demand for skilled labour and drive up skilled wages thereby contributing to wage inequality between skilled and unskilled labour. Besides FDI, trade may also play an important role in labour markets of the host countries. Exports and imports may improve labour productivity of the host countries since they expose the industry to international and domestic competition and force the firms to improve their productivity and efficiency continuously. The overseas markets are sources of new knowledge and skills while the networks established overseas are sometimes sources of know-how and machinery. However, there exists an inconclusive debate with respect to the role of trade in explaining the changing structure of relative employment and effect on wage inequality

- ✓ **Agriculture Sector**

Agriculture has been and still remains the backbone of the Indian economy. It plays a vital role not only in providing food and nutrition to the people, but also in the supply of raw material to industries and to export trade. In 1991, agriculture provided employment to 72 per cent of the population and contributed 29.02per cent of the gross domestic product. LPG reforms enabled greater access to technological advancements in agriculture, including high yield varieties, genetically modified crops (GM crops) and micro-irrigation techniques. Foreign investment in agriculture in contract farming, cold storage and food processing have helped farmers to large extent as well as access to foreign markets has greatly boosted Indian agricultural exports. It has empowered the farmers to understand, reach out and compete in global markets. The new technologies, especially in irrigation, helped in addressing rural water stress and keeping agriculture viable. However, Multi National Companies (MNCs) captured the Indian markets making farmers dependent on the expensive high yield seeds and fertilizers due to which farmers are shifting from traditional or mixed cropping to unsustainable cropping practices. The competition from cheaper imports pushed down the prices of crops like cotton, wheat etc making agriculture unsustainable for many farmers. Unsustainable agriculture practices post-LPG reforms and the inability to compete against cheaper imports contributed to distress which leads to the migration of rural farmers, destroying rural agrarian societies and traditional family structures. The dependency of MNC seeds resulted in farmers losing touch with indigenous seeds and farming methods which lead to change in the food habits with increased consumption of proteins, sugars and fats causing increase in lifestyle diseases.

- ✓ **Threat from foreign competition**

Due to opening up of the Indian economy to foreign competition through Liberalization and FDI policy more MNC's are attracted towards India after 1991 reforms and they are competing local businesses and companies. Since, these MNC's have lot of financial capacity & are big organizations with advanced foreign technology, so they have large production capacity and huge money for promotion and other research activities as the result of which they are able to defeat our Indian local companies. Thus, due to financial constraints, lack of advanced technology and production inefficiencies Indian companies are facing problem in this globalization period.

- ✓ **Impact on Environment**

The short run estimates of output shows that the increase in air, water and metal pollution due to 1 percent increase in the output in pre-reform period is in the range of 1.01 to 1.04 percent. But post-LPG reforms the level of industrial pollution has increased to the great extent. The iron and steel, cement industries and petroleum refineries are the top emitters of air pollution. Apart from this water pollution is mainly caused by non-ferrous metal and paper industries. One of the causes of the increase in pollution is rise in demand for infrastructure in the post liberalization period, the level of toxic pollution which is mainly emitted by industrial chemicals, petroleum and iron& steel industries, has shown an increase of 1.53 percent in post reform period corresponding to 1 percent increase in output. In post reform period the highest jump is witnessed in metal pollution 1 percent increase in output leads to 1.82 percent increase in metal pollution in post reform period in contrast to a corresponding increase of 1.01 percent in pre 1996 period. Major contributor to metallic pollution are iron & steel, non-ferrous metals and industrial chemicals. Globalization has also contributed to the destruction of the environment through pollution and clearing of vegetation cover. With the construction of companies, the emissions from manufacturing plants are causing environmental pollution which further affects the health of many peoples. The construction of infrastructure also destroys the vegetation cover which is important in the very survival of both humans and other animals.

- ✓ **Impact of on Industrial Sector**

Effects of LPG reforms on Indian Industry started when the government opened the country's markets to foreign investments in the early 1990s. Globalization of the Indian Industry took place in its various sectors such as steel, pharmaceutical, petroleum, chemical, textile, cement, retail, and BPO. As the globalization involves the dismantling of trade barriers between nations and the integration of the nation's economies through financial flow, trade in goods and services, and corporate investments between nations. The Government of India made changes in its economic policy in 1991 by which it allowed direct foreign investments in the country. The benefits of the effects of globalization in the Indian Industry are that many foreign companies set up industries in India, especially in the pharmaceutical, BPO, petroleum, manufacturing, and chemical sectors and this helped to provide employment to many people in the country. This helped reduce the level of unemployment and poverty in the country. The benefit that arises due to the Globalization on Indian Industry are that the foreign companies brought in highly advanced technology with them and this helped to make the Indian Industry more technologically advanced. The negative Effects of Globalization on Indian Industry are that with the coming of technology the number of labour required decreased and this resulted in many people being removed from their jobs. This happened mainly in the pharmaceutical, chemical, manufacturing, and cement industries.

X. Conclusion

When Indian economy was in deep crisis in July 1991 and was also facing the problem of BOP, Government decided to take a step towards liberalization, Privatization, Globalization of the country. These structural reforms were the long term measures aimed at improving the efficiency of the economy and increasing its international competitiveness by removing various rigidities. LPG reforms led to transformation of India into a FDI destination because since 1991, the regulatory environment in terms of foreign investment has been consistently eased to make it investor-friendly. But increasing FDI led to rising wage inequality because of the rise in the relative demand for skilled labour due to the rise in foreign direct investment (FDI), higher international trade and skill-biased technological change improving the relative position of skilled workers. LPG reforms also enabled technological advancements in agriculture i.e. high yield varieties, GM crops and micro-irrigation techniques. Contract farming, cold storage and food processing helped farmers to boost Indian agricultural exports. However it had also led to shifting from traditional or mixed cropping to unsustainable cropping practices. The competition from cheaper imports pushed down the prices of crops like cotton, wheat etc making agriculture unsustainable for many farmers. These reforms had led to setting up of many foreign companies and industries in India, especially in the pharmaceutical, BPO, petroleum, manufacturing, and chemical sectors and this helped to provide employment and hence reducing the poverty level in the economy.

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