LIBERALISATION,PRIVATISATION AND GLOBALISATION

1.LIBERALISATION
2.PRIVATISATION
3.GLOBALISATION
4.INDIAN ECONOMY DURING REFORMS

Liberalisation was introduced to put an end to these restrictions and open various sectors of the economy-

1. foreign investment
2. fiscal policy
3. foreign exchange

What is Liberalization?

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Liberty

It means Freedom

(Removing restrictions Of a Person)

Liberalization

It means Promoting a Free Market Economy

(Removing Restrictions in Economy)

This Liberalization Started in India in 1991

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When did Liberalization Start in India?

Till 1990	From 1991
Govt imposed number of restrictions on Trade, Industry, Commerce	Different Restrictions were Removed by Starting Different Reforms
Example	**Example**
License Raj	→ Industrial Sector Reforms
Strict Control of RBI	→ Financial Sector Reforms
High Rate of Tax	→ Tax Reforms
This we studied In last chapter	Lets study about these one by one.

Different Industrial Sector Reforms

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(Liberalization Measures for Industry)

Earlier (Till 1990)

Industrial Licensing was Required

- To Set up New Industry
- To Increase Production
- To Diversify

From 1991 Onwards

Industrial Licensing was Removed

Except for some sectors like

- Alcohol,
- cigarettes,
- hazardous chemicals etc.

Direct and Indirect Tax Reforms

Direct Tax Reforms

Earlier	Now (From 1991)
Income Tax Rates were very High	Income Tax Rates Reduced
So Less People Paid tax	More People Paid Tax
People did tax Evasion	Better Tax Compliance

Indirect Tax Reforms

Earlier	Now (From 2017)
Different Taxes On Sales- Sale Tax On Service -Service Tax On Manufacturing- Excise	Common Tax-GST On Sales Service Manufacturing
Different Rules in Different States	Same Rule all Over India

Financial Sector Reforms- Foreign Investment Allowed

Earlier (Till 1990)

No Foreign Investment in Bank

Only Indian Investors invested in Indian Financial Market

Indian Investors $\xrightarrow{\text{Money}}$ Indian Bank

Now (From 1991)

Foreign Investors also allowed

FDI Limit as 74%

Indian Investors (Any Amt) $\xrightarrow{\text{Money}}$ *Indian Bank*

Foreign Investors (Max 74%) $\xrightarrow{\text{Money}}$ *Indian Bank*

PRIVATISATION- this term is use for transfer of ownership of company from government to indivisual or making new company by any individuals.
privatisation of the public sector enterprises by selling off part of the equity of PSE to the public is known as disinvestment.

Change in India's Industrial Policy from 1991 → Privatization

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During 1950-1990 Nationalization

(Purchase of business by Govt from Private Sector)

Tata Airlines $\xrightarrow{\textit{Purchased by govt}}$ **Air India**

(Govt Purchased Tata Airlines From TATA and named it Air India)

Privatization From 1991

(Transfer of business from Public to Private Sector is called Privatization)

Air India $\xrightarrow{\textit{Sold by govt}}$ **Tata Airlines**

(Govt sold Air India to Tata)

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Privatisation Method 2

(Increasing Autonomy of PSU)

During 1950-1990

No Autonomy with PSU

PSU couldn't take decisions without asking govt

Take Permission

PSU ⇄ **GOVT**

Received Permission

Lot of time taken by Govt in Making decisions

From 1991

Greater Autonomy given to PSU

Certain PSU Declared - Navratna, Maharatna, Miniratna

PSU Given freedom to take decisions independently and Increase profits

Type of Ratna

MAHARATNA	**SAIL** Steel Authority of India Limited
NAVRATNA	**MTNL** Mahanagar Telephone Nigam Limited
MINIRATNA	**BSNL** Bharat Sanchar Nigam Limited

Why PSU Privatised

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From 1991
Govt did Privatisation/ Disinvestment

Reasons for Privatization/ Disinvestment

- *Use capability of private Sector in Managing Enterprises*
- *To Improve Financial Discipline*
- *Facilitate Modernisation of PSU*

Sale of PSU Help in Meeting Budgetary Deficit
Get funds Available for Development work
Strong Impetus to FDI (Promote FDI in India)

Problems With PSU

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During 1950 - 1990

A number of PSU Established

Problems with PSU

- *Inefficient Management*
- *PSU Funds not used judiciously*
- *Outdated Methods of Doing Business*

Losses Suffered by Govt
Very High Govt Investment
So Budgetary Deficit faced by govt

Financial Sector Reforms– Private Investment Allowed in banking Sector

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Earlier (Till 1990)	Now (From 1991)
Only Govt Banks Allowed (No Private Banks)	Private Banks were also Allowed along with Govt Banks

Disinvestment- Meaning and Example

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What is Disinvestment?
(Sale of Shares of Public Sector Enterprises by Govt to Public)

Indian Railway Catering and Tourism Corporation

Earlier	Now
IRCTC Not listed on Stock Market	IRCTC Listed on Stock Market
100% Shares Owned by Govt of India	67% Shares Owned by Govt of India 33% Owned by Public and Other Investors

This means Govt of India Sold 33% shares to Public
This is called Disinvestment

Globalisation-
outsourcing is one of the important outcomes of the globalisation process.in outsourcing a company hires regular service from external sources.

What is Globalisation?

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It means integration of Country's Domestic economy with World's Economy

Important Points of Globalisation

It means following set of policies which lead to

Greater interdependence and integration of world

Happenings In India are Influenced by happening far away. *Example-COVID*

Various Economic, Social Geographical boundaries are broken *(We can travel and work anywhere)*

World becomes borderless *(Different countries of world become one whole)*

Effect of Globalisation in India

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Before 1991

Indian Customers purchased mostly Indian Goods

Maruti 800 (INDIA)

Not many Foreign Companies (MNC) in India

PHILIPS

Gillette

After 1991 Reforms

Indian Customers have a choice They can Purchase *Either Indian or Foreign Goods*

Maruti 800 (INDIA)

Hyundai Santro (Korea)

Lots of Multi-National Companies Both Foreign & Indian

Foreign MNC in India

Indian MNC in worldwide

Effect of Globalization-Example

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North Korea vs	**India**
No interaction with Other Countries	Properly Integrated with Outside World
Very Little Import, Export, Foreign Trade	Large Imports, Exports, Foreign Trade
Very less Tourist visit North Korea	Large no. of Tourist visit India, go abroad
Not much Affected by World Events (COVID, Stock market Crash etc.)	Much Affected by World Events *(If US Stock Market Crashed, India's Stock Market also crashes)*

This is due to Globalization

Effect of Globalisation in India→ OUTSOURCING

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Before 1991

No Outsourcing to India

USA Company running

USA Call Center

After 1991 Reforms

Large Business Process Outsourcing (BPO) to India

USA Company running

Indian Call Center

Benefits to India

Providing Business to Outsourcing Companies

Jobs to Employees

Indian economy during reforms

1.Reforms is another name of change which give the key strategy to society which changes upcoming time in refrence of that field.

Positive Effect of Reforms

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GDP Growth Rate of India Increased

Earlier 1980-91	*Now* 2007-12
5.00%	11.20%

Increase in GDP increased the Income of Country and its People

Contribution of Various Sectors to GDP

	1980-91	2007-12	
Agriculture 	3.60%	3.20%	*Agriculture Sector Declined*
Industry 	7.10%	7.40%	*Industrial Sector Remained Inconsistent*
Service 	6.70%	10%	*Most Growth in Service Sector*

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Negative Effect of Tax Reforms And Fiscal Policy

Reform Name

Tax Rates were Reduced

Reduction in Tariff (custom duty) on Imports

Tax incentives to Foreign investors for setting up business in India

Effect

Because of all this, Revenue of Govt declined

↓

Hence, it had lesser revenue for Development and Welfare expenditure

↓

Also it had to do Disinvestment (Sale of PSU) to generate funds

Criticism of Reforms Measures →

GDP Increased but not jobs

Earlier	*Now*
1980-91	**2007-12**
5.00%	11.20%

GDP Growth Rate increased after 1991

However, sufficient employment opportunities have not been generated for the people

Reason for Less Creation of Jobs

It is is because there has not been much growth in industrial and agriculture sector which generate maximum jobs.

Positive Effect of Reforms

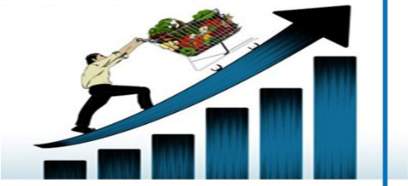
Increase in Foreign Investments and Reserves

Earlier	**Now**
Foreign Investment 100 Million (1980-91) Forex Reserves 6 Billion	Foreign Investment 30 Billion Dollars (2017-18) Forex Reserves 413 Billion Dollars
Less Foreign Investment in India ↓ Low Forex Reserves No Funds to Pay for Imports for even 15 days	More Foreign Companies Opening offices in Indian (FDI) & investing in Shares of Indian Companies (FII) ↓ More Forex Reserves India One of Largest Forex holders of Word

Positive Effect of Reforms

Before Reforms

Low Exports
(Indian Industry not competitive enough, Exports Rejected due to bad quality



High Inflation
(Increase in Price of Essential Commodities)

After Reforms of 1991

Higher Exports
Software, Textiles, Engineering Goods, Autoparts etc.

Less Inflation
(Prices of good were kept in control)