IMPACT OF NEW ECONOMIC REGIME IN INDIA

On July 24, 1991, India instituted a series of ongoing economic reforms, which is now known as the Economic Liberalization of 1991.

The reforms initiated were based on 3-Ds :

- Disinvestment-Reduction of the state(govt) in the economic activities of a nation by selling shares and debentures of a concern.
- De-licensing-Reduction or complete removal of restriction on establishment or expansion of a concern.
- De-reservation-Removal of state monopoly.

The reasons that caused these reforms are as follows:-

1) Adverse Balance of Payments
2) No Foreign Exchange Reserve-($1.2 billion in Jan 1991)
3) Collapse of USSR, our major trading partner
4) Repayment of past debts (External debt grew to as much as 38.7% of the GDP in 1991-1992)
5) Gulf War
6) Increased Account Deficit and fiscal deficit-(rose to 12.1% in 1991)
7) Slow growth rate-(stagnated around 3.5% from 1950s-80s, per capita income averaged 1.3%)

8) India's protectionist policies, Nehru's five year plans, several failed reform policies like Indira Gandhi's "Garibi Hatao" program , License Raj driven economic planning , and a failure to open up our markets to foreign investments, all contributed to our economy stagnating at dismal growth rates.

(THE BIHAR FAMINE):=

9) India faced food shortages and there was mass starvation in states like Bihar.
Farmers in India struggled to meet her agricultural production needs and industrialists suffered from the death-grip of License Raj.

10) The "Oil Shock" of 1979, combined with agricultural subsidies and a consumption based strategy pushed the fiscal deficit up even higher.

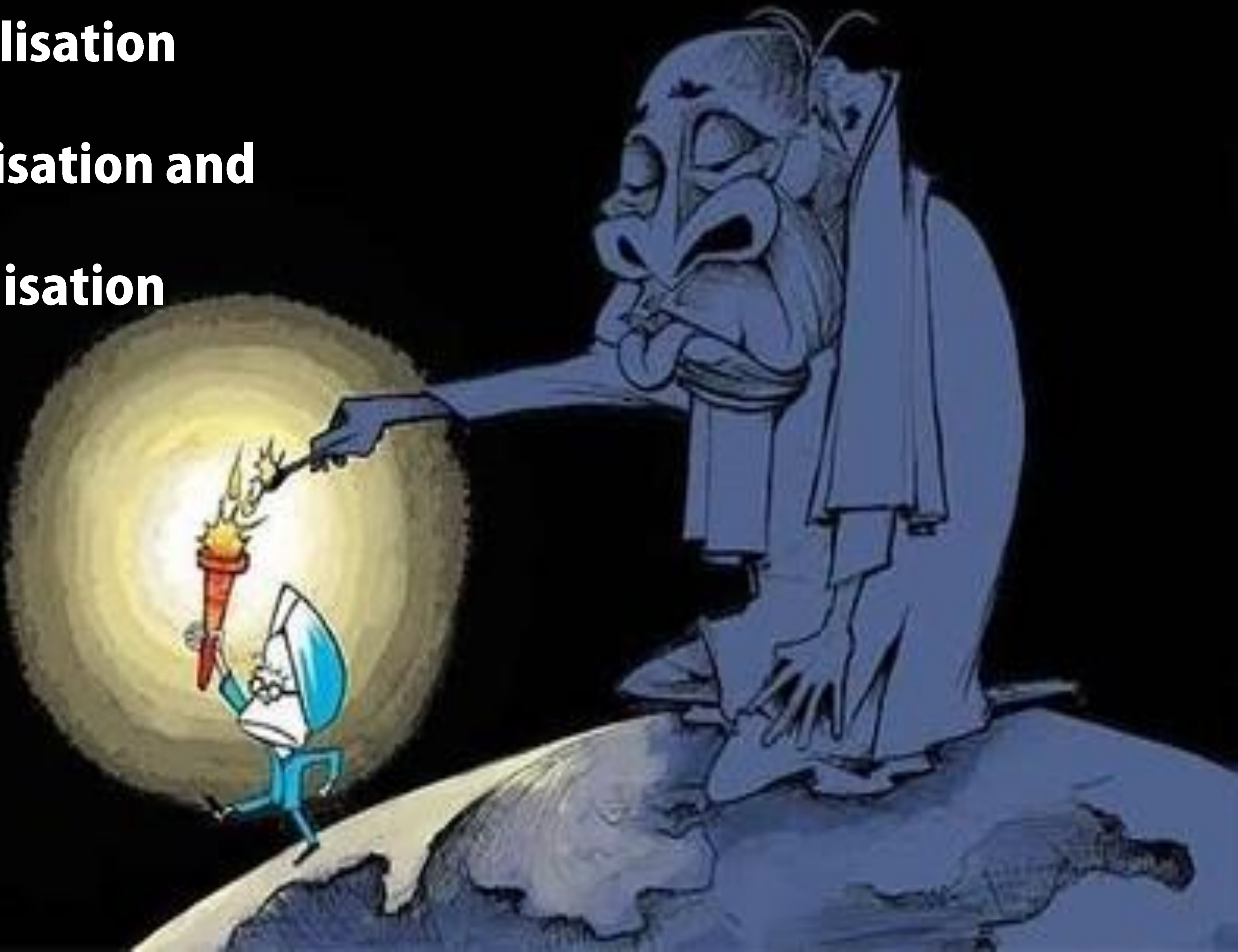
11) In addition to this, there were several other economic drains like the Indo-Pakistani wars (1965, 1971), the Sino-Indian war (1962), etc, which not only drove up our defence spending, but also alienated India from the foreign aid of certain countries.

All these collectively led to :

Liberalisation

Privatisation and

Globalisation



Liberalization

Liberalisation refers to relaxation of previous government restrictions usually in areas of social and economic policies.

Thus, when government liberalises trade it means it has removed the tariff, and other restrictions on the how of goods and services between countries.

Liberalisation in economy stand for ::

The process of making policies less constraining of economic activity and also reduction of tariff or removal of non tariff barriers.

Indian companies got liberalisation in the following way:

(a) Abolition of licence Raj except in few.

(b) No restriction on expansion or contraction of business activities.

(c) Freedom in fixing prices.

(d) Liberalisation in import and export.

(e) Easy and simplifying the procedure to attract foreign capital in India.

(f) Freedom in movement of goods and services

(g) Reduced agricultural subsidies

IMPACT OF LIBERALIZATION :

1. A huge public sector emerged. State owned enterprises made large losses.

2. Stock Market Performance

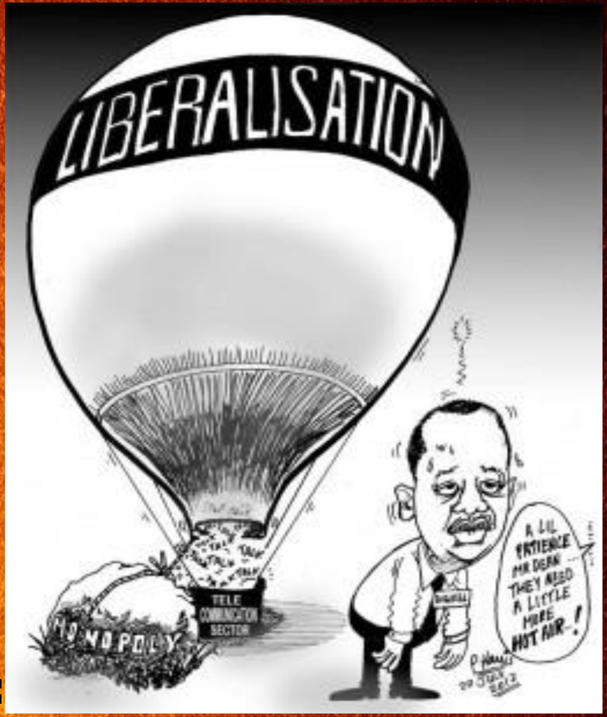
3. Political risks reduced

4. Diversification for Investors

5. Joint ventures with foreign companies. E.g.: TVS Suzuki

6. This has been accompanied by increases in life expectancy, literacy rates and food security, although urban residents have benefited more than rural residents

7. Decline of tax/GDP ratio



PRIVATISATION

Privatisation It refers to the transfer of assets or service functions from public to private ownership or control and the opening of the closed areas to private sector entry

Objectives of Privatisation:

1.To strengthen the private sectors.

2.Government wanted to concentrate on areas like education and infrastructure

3.The government felt that increasing inefficiency on the part of public sectors would not help in achieving global standards. Hence a decision was taken to privatise the Public Sectors

Causes of Inefficiency of Public Sectors:

i. Bureaucratic administration
ii. Out dated Technology
iii. Corruption
iv. Lack of accountability.
v. Domination of trade unions
vi. Political interference.
vii. Lack of proper marketing activities

Advantages:

i. Increase in Efficiency

ii. Absence of political interference

iii. Quality service.

iv. Systematic marketing

v. Use of modern Technology

vi. Accountability

vii. Creation of competitive environment.

viii. Innovations

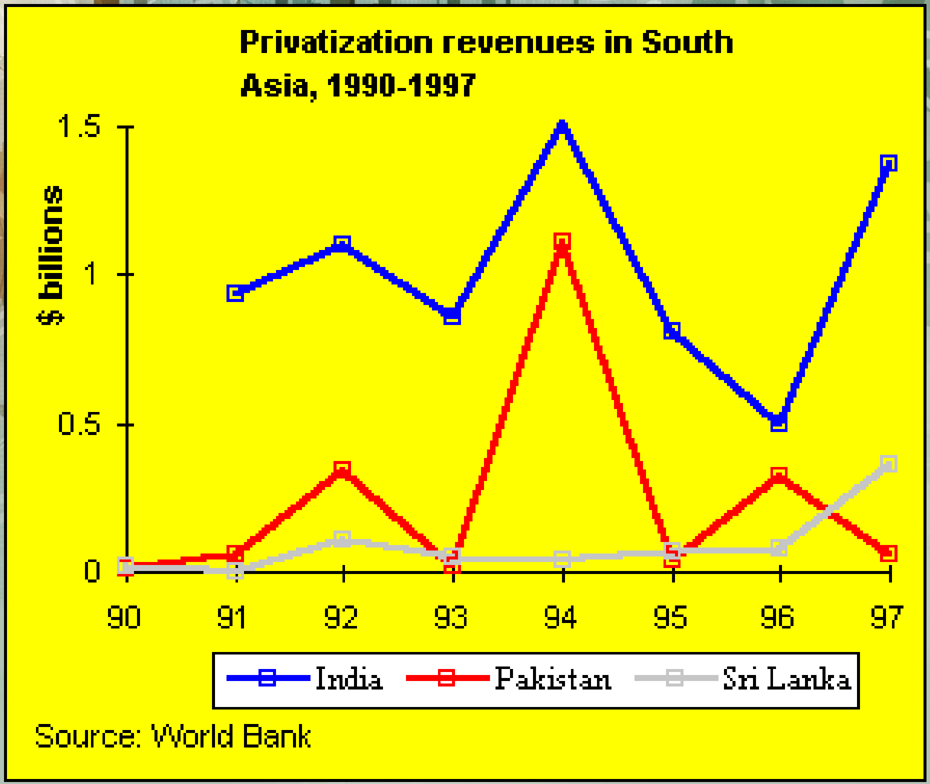
ix. Research and development

x. Optimum utilisation of resources

xi. Infra structure.

YEAR	TARGET	PRIVATIZATION RECEIPTS	FISCAL DEFICIT	PRIVATIZATION RECEIPTS/ FISCAL DEFICIT (PERCENT)
1991-92	$1,087	$1,321	$15,793	8.4
1992-93	962	736	15,451	4.8
1993-94	1,167	0	20,086	0
1994-95	1,290	1,562	18,614	8.4
1995-96	2,188	53	15,704	0.3
1996-97	1,429	109	16,018	0.7
1997-98	1,333	253	20,335	1.2
1998-99	1,220	1,310	21,844	6
1999-2000	2,326	433	24,353	1.8
2000-01	2,222	416	26,404	1.6
2001-02	2,553	1,204	29,990	4
2002-03	2,449	683	29,607	2.3
2003-04	3,085	3,308	26,228	12.6
2004-05	889	614	27,954	2.2
2005-06	NO TARGET FIXED	357	33,281	1.1
2006-07	NO TARGET FIXED	0	31,683	0
2007-08	NO TARGET FIXED	588	31,523	1.9
2008-09	2,210	0	70,997	0
TOTAL	$26,408	$12,945	$475,864	2.60%

Source: Government of India, Ministry of Finance, *Economic Survey* (various issues); Government of India, Ministry of Finance, *Union Budget* (various years); Government of India, Department of Disinvestment website (www.divest.nic.in), accessed July 20, 2009; World Bank, *World Development Indicators*, Washington DC, 2008.



However, privatisation suffers from the following defects.

DISADVANTAGES:

i. Exploitation of labour.

ii. Abuse of powers by executives.

iii. Unequal distribution of wealth and income.

iv. Lack of job security for employees.

v. Lack of transparency.

Disinvestment Commission The five member Disinvestment Commission was set up on August 7, 1996.

Major tasks of the commission are to determine extent of disinvestment in each PSU .

Successful Privatizations in India

LAGAN JUTE MACHINERY COMPANY LIMITED (LJMC) Gross turnover: pre-privatization= Rs. 6 million (April-June 2000), post-privatization= Rs. 24 million (July-Sept 2000)

MODERN FOOD INDUSTRIES LIMITED (MFIL) Share value went up from Rs. 2138 on 30th Dec.(prior to sale) to Rs. 3247 on 25th Feb.(post sale)

PARADEEP PHOSPHATES LIMITED (PPL) Net profit: pre sale= Rs. 57.95 Cr., post sale= Rs. 23.96 Cr

Paradeep Phosphates Limited
Enabling Farming, Enriching Farmers

Bharat aluminium company limited (BALCO) :

balco

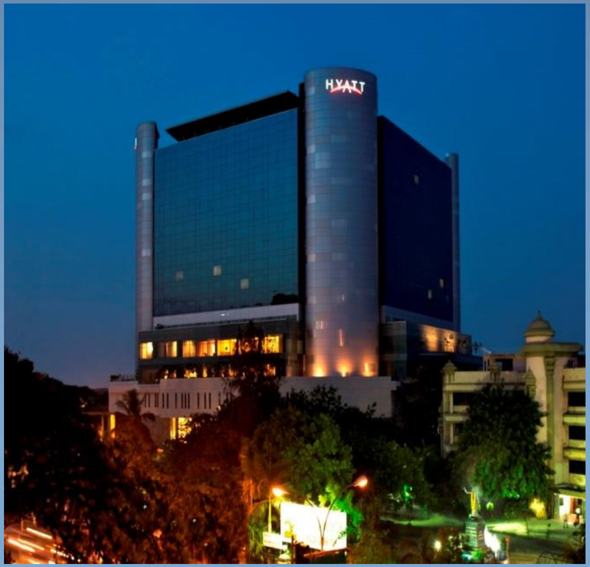
BHARAT ALUMINIUM COMPANY LTD.

HZL

HINDUSTAN ZINC LIMITED

Hindustan Zinc limited (HZL):

Hotel Corporation of India limited (HCI):



GLOBALISATION

Economic globalization is the increasing economic interdependence of national economies across the world through a rapid increase in cross-border movement of goods, service, technology and capital.

It refers to a process whereby there are social, cultural, technological exchanges across the border

IMPACTS OF GLOBALIZATION:

1. Access to Technology:

Globalization has drastically, improved the access to technology. Internet facility has enabled India to gain access to knowledge and services from around the world. Use of Mobile telephone has revolution used communication with other countries.

2. Growth of international trade and foreign collaboration:
Tariff barriers have been removed which has resulted in the growth of trade among nations. Global trade has been facilitated by GATT, WTO etc.

3. Increase in production:
Globalization has resulted in increase in the production of a variety of goods. MNCs have established manufacturing plants all over the world

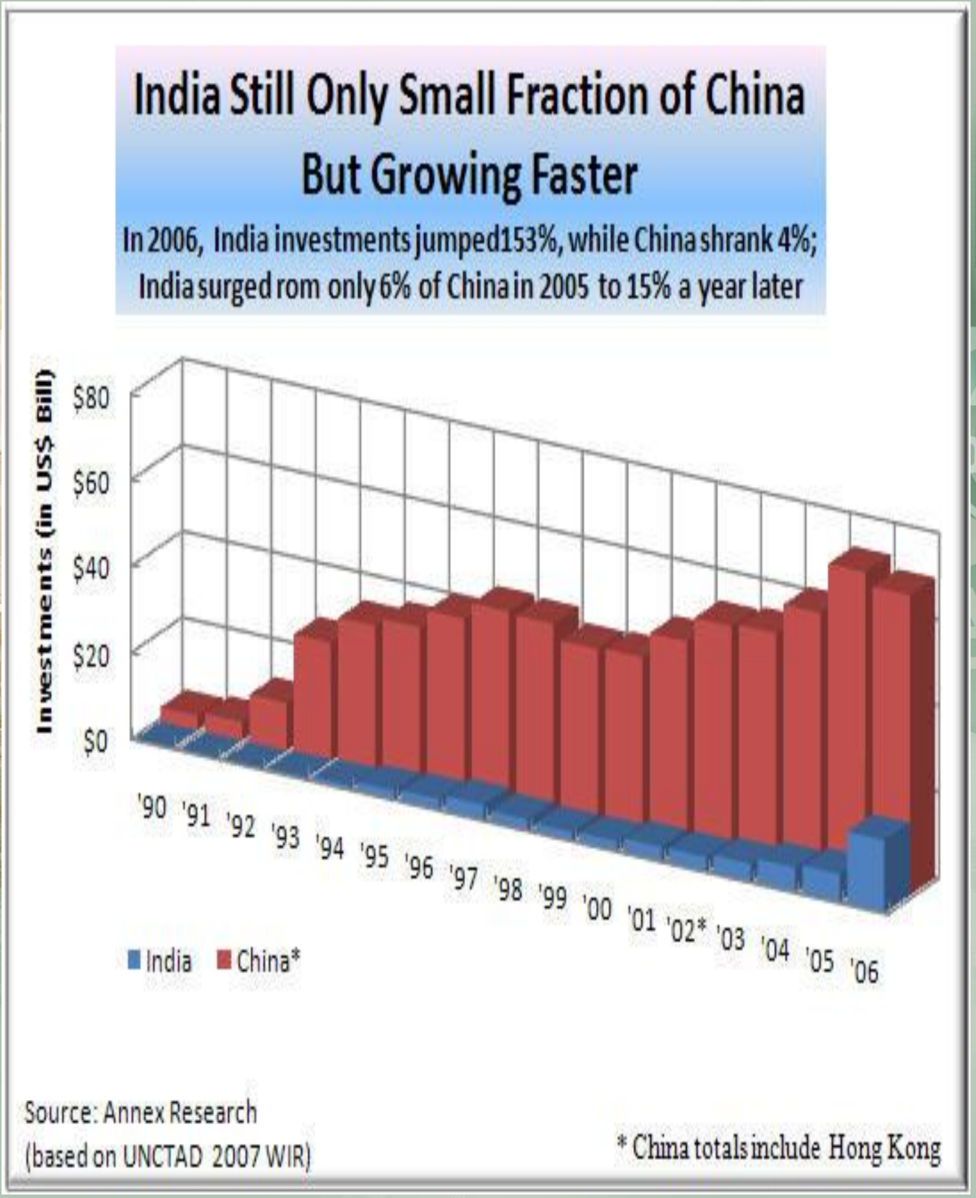
4. Employment opportunities: Establishment of MNCs have resulted in the increase of employment opportunities

5. Free flow of foreign capital: Globalization has encouraged free flow of capital which has improved the economy of developing countries to some extent. It has increased the capital formation.

Negative effect of globalization:

1. Inequalities within countries: Globalisation has increased inequalities among the countries. Some of the policies of Globalization (liberalisation, WTO policies etc.) are more beneficial to developed countries. The countries which have adopted the free trade agenda have become highly successful.

E.g.: China is a classic example of success of globalization. But a country like India is not able to overcome the problem



2. Entry of MNC supermarket and hypermarket chains would cause severe displacement of small and unorganised shopkeepers and traders.

3. Impact on Environment:

Globalization has led to 50% rise in the volume of world trade. Mass movement of goods across the world has resulted in gas emission are potentially devastating to ecological balance. E.g.: Extensive import or export of meat.

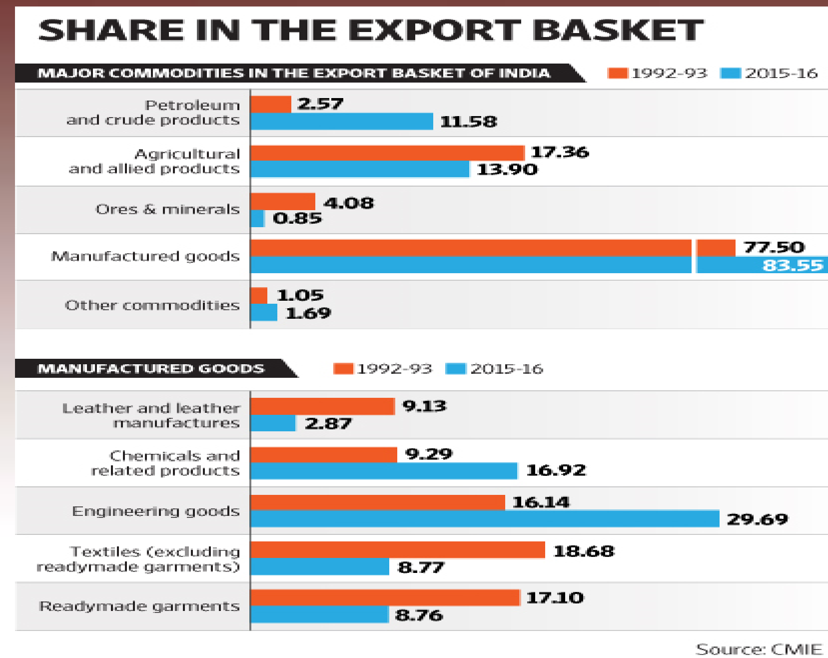
4. Domination by MNCs:

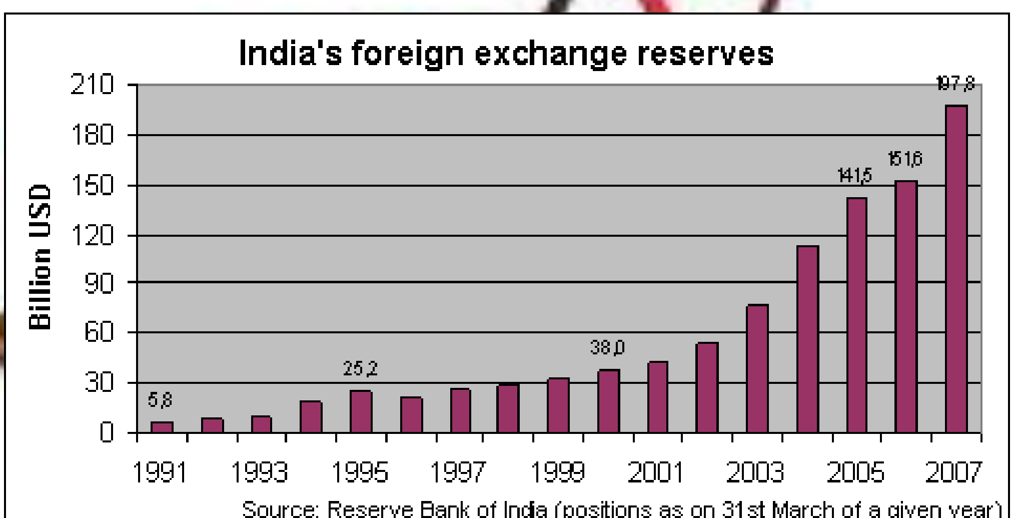
MNCs are the driving force behind globalization. They are in a position to dictate powers.

They are exploiting the cheap labour and natural resources of the host countries.

IMPACTS OVER 25 YEARS

India's share in the world export which had fallen 0.53% in 1991, has reversed trends and has improved to 1.60% in 2013.





Our foreign currency reserves which had fallen to barely $5 billion in June, 1991 rose substantially to about $200.72 billion in October, 2007.

CONCLUDING REMARKS


Thank you!