UNIT-VII
CHAPTER
20

LIBERALIZATION, PRIVATIZATION AND GLOBALIZATION

INTRODUCTION

India approached International Monetary Fund for a loan to repay the external borrowings. These agencies expected India to liberalise and open up economy by removing restrictions on private sector and remove trade restrictions between India and other countries.

India agreed to the conditions of World Bank and IMF and announced New Economic Policy (NEP) which consists of wide range of economic reforms. This new set of economic reforms is commonly known as the LPG or Liberalisation, Privatisation and Globalisation model. This chapter clearly deals with these three factors.

I. Choose the Correct Answers

1. __________ is the result of New Industrial Policy which abolished the 'License System'.
(a) Globalisation (b) Privatisation
(c) Liberalisation (d) None of these

2. __________ means permitting the private sector to setup industries which were previously reserved for public sector.
(a) Liberalisation (b) Privatisation
(c) Globalisation (d) Public Enterprise

3. ___________ ownership makes bold management decisions due to their strong foundation in the international level.
(a) Private (b) Public
(c) Corporate (d) MNC's

4. ___________ results from the removal of barriers between national economies to encourage the flow of goods, services, capital and labour.
(a) Privatisation (b) Liberalisation
(c) Globalisation (d) Foreign Trade

5. New Economic Poilcy was introduced in the year__________.
(a) 1980 (b) 1991
(c) 2013 (d) 2015

ANSWERS									
1	c	2	b	3	a	4	c	5	b

II. Very Short Answer Questions:

1. State the branches of New Economic Policy.
- Liberalization
- Privatization
- Globalization

2. What is Privatisation?
- Privatization is the incidence or process of transferring ownership of a business enterprise, agency or public service from the government to private sector.

3. Mention any three disadvantages of Liberalisation.
- Loss to domestic units
- Increased dependence on foreign nations
- Unbalanced development

4. Name the industries which are reserved for Public sector.
- Mineral Oils
- Atomic Energy
- Defence aircraft and warships
- Railway transport
- Coal and lignite.

5. Give any three advantages of Globalisation.
- Increase in foreign collaboration
- Expansion of market
- Technological development

III. Short Answer Questions:

1. What do you mean by liberalisation?

- Liberalization refers to laws or rules being liberalized, or relaxed, by a government.
- Liberalization means relaxation of various government restrictions in the areas of social and economic policies.
- Liberalizing trade policy by the government includes removal of tariff, subsidies and other restrictions on the flow of goods and services between countries.
- Liberalization is the result of New Industrial Policy which abolished the "License system" or "Licence Raj".

2. Explain the concept of Privatisation.

- Privatization is the incidence or process of transferring ownership of a business enterprise, agency or public service from the government to the private sector.
- Privatisation means permitting the private sector to set up industries which were previously reserved for the public sector.
- Under this policy many Public Sector Units (PSUs) were sold to private sector.
- The main reason for privatisation was that PSUs were running in losses due to mismanagement and political interference.
- The managers could not work independently and the production capacity remained under-utilized.
- To increase competition and efficiency privatisation of PSUs was inevitable.
- Some examples of Public Sector Enterprises recently privatlised are as follows.
  - i. Bharat Aluminimum Co. Ltd., (BALCO)
  - ii. Hindustan Zinc Ltd (HZL)
  - iii. Indian Petrochemicals Corporation Ltd (IPCL)
  - iv. Maruthi Udyog Ltd (MUI)
  - v. Modern Food Industries Ltd (MFIL)

3. What are advantages of disinvestment?

Disinvestment is a system of privatizing government enterprises. The following are its advantages:

(a) Increase in efficiency:

- Privatization is associated with improved efficiency due to the profit incentive.
- Private companies will ensure they improve their operational efficiency in order to reduce their costs and improve in profits.

(b) Professional management:

- Government owned enterprises make poor economic management compared to private owned enterprises.
- This is because of the fear of negative publicity.
- Private ownership makes bold management decisions due to their strong foundation at international level.

(c) Increase in competition:

- Privatisation of state-owned monopolies occurs alongside deregulation
- The policies allow more firms to enter the industry and increase the competitiveness of the market.
- It is this increase in competition that can be the greatest spur to improvements in efficiency.

(d) Reduction in economic burden of Government:

- Since the ownership, control and management of many PSUs are transferred to private, the burden and responsibility of government has comparatively reduced.

4. State any three impacts on Globalisation.

(a) Corporations got a competitive advantage from lower operating costs, and access to new raw materials and additional markets.

(b) Multinational corporations (MNCs) can manufacture, buy and sell goods worldwide.

(c) Globalisation has led to a boom in consumer products market.

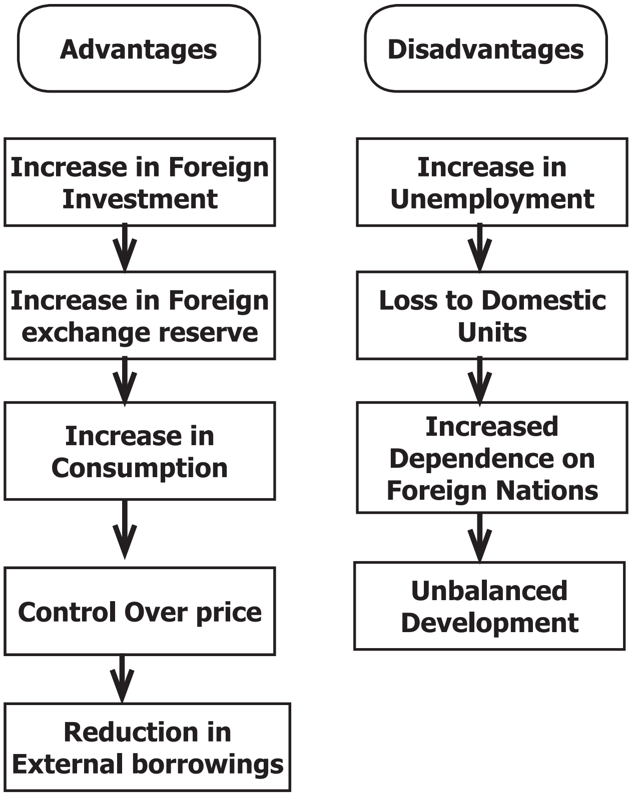
5. Write a short note on New Economic Policy.

- The base for New Economic Policy in various countries of the world is Dunkel Draft.
- It was all about the General Agreements on Trade and Tariff.
- Mr. Arthur Dunkel (1932-2005) submitted a 22,000 page document for the World Trade Organisation (WTO) and followed by many Nations to adopt their respective New Economic Policies.

- ❖ India is one among such nations to commit itself to the New Economic Policy in 1991.
- ❖ The new set of economic reforms is commonly known as the LPG or Liberalisation, Privatisation and Globalisation model.

IV. Long Answer Questions:

1. Explain the advantages and disadvantages of liberalisation.



Advantages

(a) Increase in foreign investment:

- ❖ If a country liberalises its trade, it will make the country more attractive for inward investment.
- ❖ Inward investment leads to capital inflows but also helps the economy through diffusion of more technology, management techniques and knowledge.

(b) Increase the foreign exchange reserve:

- ❖ Relaxation in the regulations covering foreign investment and foreign exchange has paved way for easy access to foreign capital.

(c) Increase in consumption:

- ❖ Liberalization increases the number of goods available for consumption within a country due to increase in production.

(d) Control over price:

- ❖ The removal of tariff barriers can lead to lower prices for consumers. This would be particularly a benefit for countries who are importers.

(e) Reduction in external borrowings:

- ❖ Liberalization reduces the dependence on external commercial borrowings by attracting more foreign investments.

Disadvantages

(a) Increase in unemployment:

- ❖ Trade liberalisation often leads to a shift in the balance of an economy.
- ❖ Some industries grow, some decline. Therefore, there may often be structural unemployment from certain industries closing.

(b) Loss to domestic units:

- ❖ With fewer entry restrictions, it has been possible for many entrants to make inroads into the country, which poses a threat and competition to the existing domestic units.

(c) Increased dependence on foreign nations:

- ❖ Trade liberalisation means firms will face greater competition from abroad.
- ❖ When competition is not automatically enhanced, it can lead to domination by big institution that has market controlling powers.

(d) Unbalanced development:

- ❖ Trade liberalisation may be damaging for developing economies which cannot compete against free trade.
- ❖ The trade liberalisation often benefits developed countries rather than developing economies.

2. Explain the impact of LPG on Indian Economy.

The following are the impact of LPG on Indian Economy.

(a) Introduction of new Foreign Trade Agreements
(b) Foreign Investment (FDI & FII)

(c) MRTP Act, 1969 (Amended)
(d) Deregulation
(e) Opportunities for overseas trade
(f) Steps to regulate inflation
(g) Tax reforms
(h) Abolition of License
(g) Globalization and liberalization both occur as a result of modernization.
(h) Globalization is the greater integration among countries and economies for trade, economic, social and political benefits.
(i) Liberalization generally refers to removal of government rules and regulations imposed on social, economic, or political matter

Additional Questions:

I. Choose the Correct Answers:

1. The first every company privatized in India is ______________.
a) BALCO b) HZL
c) ISL d) MUI

2. Which can be a method of privation?
a) Denationalization
b) Purchasing shares
c) Takeover d) Merger.

3. In India liberalization and privatization began from_____.
a) 1991 b) 1971
c) 1981 d) 1947

4. Industrial policy of 1948 aimed at _______.
a) Industrialization
b) growth of agriculture
c) development of infrastructure
d) development of service sector.

5. Who gave a practical shape to privatization?
a) MARGARAT THATCHER
b) LOUIS PETER
c) WILLIAMS d) FAYOL

6. Assertion (A): Most of the development banks in India have setup private commercial banks after the introduction of capital adequacy norms.
Reason (R): Development banks in India have not adhered to their basic objectives.
Codes:
(A) (A) and (R) both are correct, and (R) is correct explanation of (A).
(B) (A) and (R) both are correct, but (R) is not a correct explanation of (A).
(C) (A) is correct, but (R) is incorrect.
(D) (R) is correct, but (A) is incorrect.

7. Assertion (A): Strategies necessarily need to be changed over time to suit environmental changes.
Reason (R): To remain competitive, organisations develop those strategies that create value for customers.
Codes:
(A) (A) is correct, but (R) is incorrect.
(B) Both (A) and (R) are correct.
(C) (A) is incorrect, but (R) is correct.
(D) Both (A) and (R) are incorrect.

8. __________ refers to relaxation of produce government restriction usually in areas of social and economic policies.
a) Privatisation b) Globalisation
c) Disinvestment d) Liberalisation

9. Disinvestment means selling of a public investment to a _______.
a) Private enterprises b) Public enterprises
c) Capital Market d) Departmental enterprises

10. Privatisation can be achieved by ______________.
a) Leasing b) Franchising
c) Contracting d) All of these

ANSWERS									
1	c	2	a	3	c	4	a	5	a
6	c	7	b	8	d	9	a	10	d

II. Very Short Answer Questions:

1. What is the impact of privatization?
(a) Privatization has a positive impact on the financial growth by decreasing the deficits and debts.

(b) Increase in the efficiency of government undertakings.
(c) Provide better goods and services to the consumers.
(d) Making way for Foreign Direct Investment (FDI)

III. Short Answer Questions:

1. What is the impact of liberalization?

(a) The impact of Liberalisation on Indian Economy was well afforeciable with the phenomenal growth by contributing $1.3 Trillion to the world GDP.
(b) Liberalization has opened up new business opportunities abroad and increased foreign direct investment.
(c) New market for various goods came into existence and resulted not only in urban but also in rural development.
(d) It became very easy to obtain loans from banks for business expansion.
(e) "Foreign Collaboration" is the latest outcome of liberalization.
(f) A number of multinational companies started operating world-wide including India.

2. Explain the forms of Privatization:

a) Contraction(minimisation) of public sectors:

❖ The number of industries reserved for public sector was reduced from 17 (as per 1956 policy) to only 8 industries viz, Arms and Ammunition, Atomic Energy, Coal and Lignite, Mineral oils, Mining of ores, Mining of copper, lead, zinc etc., Minerals for atomic energy and Railways.

(b) Sales of shares of public sectors to the private sector:

❖ Indian Govt. started selling shares of PSUs to public and financial institution.
❖ Now the private sector will acquire ownership of these PSU's.
❖ The share of private sector has increased from 45 % to 55 % in the year 2011 and after.

(c) Memorandum of Understanding:

❖ MoU system was introduced in 1991to raise the productivity and performances of PSUs.
❖ It strengthens the relationship between PSUs and administrative departments.
❖ The main work of MoU is to judge the PSUs and level their performance.

(d) Disinvestment in PSUs:

❖ The Govt. has started the process of disinvestment in those PSUs which had been running into loss.
❖ It means that Govt. has been selling out these industries to private sector.
❖ So disinvestment is a system of privatizing government enterprises.

3. What are the disadvantages of Privatization?

(a) Lack of welfare: Majority of private companies whose main motive is profit-making, do not indulge in public interest or welfare services like free education to poor, free medical treatment, etc.

(b) Political pressure: When private companies fail to deliver, the public has no powers to intervene and government does not always have time or expertise to force them to keep their promises.

(c) Ignores the weaker sections: Privatisation often goes hand in hand with encouraging richer people to pay more and opt for best quality services. This leads to division, making it harder to provide excellent public services for weaker sections.

IV. Long Answer Questions:

1. What are the forms of Liberalization?

a) Liberalization for industrial licensing:

❖ In India, it was mandatory to obtain license before liberalization for setting up certain industries.
❖ After liberalisation, all industries except six specific industries were liberalized i.e., free from obtaining license.

(b) Freedom for expansion and production to industries:

❖ Earlier government used to fix the maximum limit of production capacity.
❖ Now the industries are free to decide their production limits by their own on the basis of the requirement of the markets.

- Increase in the investment limit of the small industries:
- Investment limit of the small scale industries has been raised to Rs. 1 cr. So these companies can upgrade their machinery and improve their efficiency.

(d) Foreign Exchange reforms:

- The first important reform in the external sector was made in the foreign exchange market.
- In 1991, as an immediate measure to resolve the balance of payments crisis, the rupee was devalued against foreign currencies.
- This led to an increase in the inflow of foreign exchange.

(e) Liberalization of export and import transactions:

- By simplifying procedures for imports and exports the government wanted to permit the international flow of goods, services, capital, human resources and technology, without many restrictions.

2. Explain the Advantages and Disadvantages of Globalization:

Advantages

(a) Increase in foreign collaboration: Globalisation increases foreign collaboration through various modes such as joint venture, merger, franchise, turn-key projects, etc.

(b) Expansion of market: The size and operation of business moves from local to national and from national to international.

(c) Technological development: Technological advancement paves way for a company to enter foreign market. Globalisation of technology is done by Royalty or purchase of technology or by technology collaborations.

(d) Reduction in brain drain: Brain drain is a situation in which a country loses its most educated and talented workers to other countries through migration. Globalisation paves way for employment opportunities in the home country and utilise the man-power efficiently.

Disadvantages

(a) Loss of domestic industries: Globalisation causes decline in the demand of domestic products which in turn vanishes the domestic business.

(b) Increase in inequalities: Globalisation widens the gap between rich and poor. Also developed countries exploit the resources of developing countries.

(c) Dominance of foreign institutions: Economic power shifts from independent industries to international organisations which is a threat to national sovereignty.