LIBERALIZATION PRIVATIZATION GLOBALIZATION

THE NEW ECONOMIC POLICY

The New Economic Policy (NEP) was introduced in July 1991. It included a wide variety of economic changes. The policy's primary goal was to create a more competitive economic environment by removing impediments to company entrance and expansion.
The New Economic Policy may roughly be divided into two types of measures:

1. **Stabilization interventions:** These are short-term interventions that attempt to:
   - Improving the balance of payments by retaining enough foreign exchange reserves
   - Controlling inflation by keeping growing prices in check.
2. **Structural reform**: Structural reform initiatives are long-term policies that aim to:
   - Improving economic efficiency.
   - Improving international competitiveness by eliminating rigidities in many sectors of the Indian economy.

LIBERALIZATION

Prior to 1991, India had a considerable variety of government limitations in sectors like as licensing, import and export commerce, foreign exchange transactions, and so on. In July 1991, a package of economic changes was unveiled, ushering in the process of 'Liberalisation in India'. Liberalisation entails the elimination of entrance and growth barriers for the private sector.

- Liberalisation entails deregulation and elimination of government constraints, as well as more autonomy (freedom) for private investment in order to make the economy more competitive.
- This approach gives businesses the freedom to operate on commercial lines.
- Liberalization aimed to boost the country's economy by encouraging private sector and international firms to invest and develop, as well as increase competition.
- Under this process, business is given free hand and is allowed to run on commercial lines.

1. **The purpose of liberalisation was:**

- To unlock the economic potential of the country by encouraging private sector and multinational corporations to invest and expand; and
- To introduce much more competition into the economy and creating incentives fr increasing efficiency of operations.
- The economic reforms taken by the Government under liberalisation include the following.

  (i) Industrial Sector Reforms

  (ii) Financial Sector Reforms

  (iii) Tax Reforms

  (iv) Foreign Exchange Reforms

  (v) Trade and Investment Policy Reforms

2. **Industrial sector reform**

   To effect the necessary reforms in the industrial sector, the Government on July 24, 1991, introduced a new industrial policy. Among the measures included in the reforms are:

I. **Reduction in Industrial Licensing.** Under the new policy, industrial licensing was eliminated for all projects, with the exception of 18 industries, which were then further reduced to 5 industries. These industries are

   (i) Distillation and brewing of alcoholic drinks.

   (ii) Industrial explosives;

   (iii) Specified Hazardous Chemicals;

   (iv) Electronic aerospace and defense equipment;

   (v) tobacco cigarettes and manufactured tobacco alternatives.

II. **Decline in Public Sector Role:** One of the most notable aspects was the significant decline in the Public Sector's involvement in the nation's future industrial growth. The number of industries designated for the public sector under the New Economic Policy was whittled down from 17 to 8, and then to only 3 (in 2010–11): defense equipment, railroads, and atomic energy.

III. **De-reservation under small-scale industries:** A lot of the products made by these businesses are currently no longer subject to reservations.

• The rupee one crore investment cap on equipment and machinery for small businesses was raised.

• The market forces—rather than government direction policies—were let to set pricing in a number of industries.

IV. **Monopolies and Restrictive Trade Practices (MRTP) Act:** Large enterprises were no longer required to obtain prior approval for growth, the creation of new ventures, mergers, amalgamations, etc., thanks to the adoption of liberalization and expansion programs. The more permissive Competition Act of 2002 has superseded the MRTP Act. The Competition (Amendment) Act of 2007 and the Competition (Amendment) Act of 2009 made amendments to the Competition Act of 2002.

3. Financial Sector Reforms

I. **Modification of RBI Role:** The RBI's previous function as a regulator was downsized to that of a financial sector facilitator. Consequently, the financial industry was permitted to make judgments on several issues without first engaging the RBI.

II. **Origin of Private Banks:** Both foreign and Indian private sector banks were established as a result of the reform initiatives. For instance, international banks like HSBC and Indian banks like ICICI boosted competition and benefited customers by offering better services and cheaper interest rates.

III. **Raising in limit of foreign investment:** Foreign investment in banks is now permitted up to a maximum of 74%. The Indian financial markets now accepted investments from Foreign Institutional Investors (FII), including pension funds, mutual funds, and merchant bankers. In order to protect the interests of account holders and the country, some parts of banks' ability to create resources from both domestic and foreign sources have been retained by the RBI.

IV. **Ease of Expansion Process:** Banks were allowed to open new branches without the RBI's permission, provided that certain requirements were met.

4. **Tax Reform**

Changes to the government's fiscal policy, which includes both taxation and public spending, are referred to as tax reforms. There are two different kinds of taxes:

Direct taxes: Which include taxes on both individual income and corporate earnings. Take income tax, which levies taxes on personal income, and corporate tax, which levies taxes on business earnings.

Indirect tax: Taxes that impact an individual's income and property through their consumption expenditures are referred to as indirect taxes. In most cases, products and services are subject to indirect taxes. Take the Goods and Services Tax (GST), for instance.

5. **The principal tax reforms enacted are:**

I. **Rationalization of Direct Taxes:** Since 1991, income and corporate taxes have been continuously lowered due to the fact that excessive tax rates have been a major contributing factor to tax evasion. It is now well acknowledged that income disclosure on a voluntary basis and savings are encouraged by modest income tax rates.

II. **Indirect Tax Reforms:** To aid in the creation of a single national market for goods and commodities, significant reforms have been made to indirect taxes.

III. **Process Simplification:** Many procedures have been made simpler in an effort to promote improved taxpayer compliance.

6. **Reforms in Foreign Exchange**

I. **Devaluation of Rupee:** The devaluation of the rupee is the first significant adjustment in the foreign exchange market. Devaluation is the term used to describe a country's government's intentional decrease in the value of its own currency relative to any foreign currency. The rupee was depreciated against foreign currencies in 1991 in order to solve the Balance of Payments problem. As a result, there was a rise in foreign exchange influx.

II. **<u>Market Determination of Exchange Rate:</u>** The government gave up control over the value of the rupee. Therefore, the exchange value of the Indian rupee in terms of foreign currency is determined by supply and demand in the market.

7. Reforms to Trade and Investment Policies

Prior to 1991, imports were subject to several limitations (high tariffs and quotas) in order to safeguard native businesses. However, the sluggish expansion of domestic industries was caused by this protection, which also decreased their competitiveness and efficiency. Thus, the trade and investment policy changes were started with the following goals in mind:

- Boosting the industrial production's competitiveness on a global scale;
- Encouraging foreign technology and investments in the economy; and
- Encouraging the efficiency of domestic industries and the adoption of cutting-edge technologies.

8. The important trade and investment policy reforms :-

I. **<u>Elimination of Quantitative Import and Export limitations:</u>** The New Economic Policy significantly decreased the quantitative import and export limitations. For instance, as of April 2001, all quantitative import limitations on manufactured consumer items and agricultural products were eliminated.

II. **<u>Elimination of Export tariffs:</u>** In order to make Indian goods more competitive in global markets, export tariffs were eliminated.

III. **<u>Reduction of obtain tariffs:</u>** By allowing local industries to obtain raw materials at lower costs, import tariffs were significantly lowered, increasing their competitiveness.

IV. **<u>Laxity in the Import Licensing System:</u>** Import licensing was eliminated, with the exception of companies that pose a risk to public health or the environment. This made domestic companies more competitive and efficient by encouraging them to import raw materials at lower costs.

The promotion of the "privatization" agenda was a significant aspect of the new economic strategy.

PRIVATIZATION

Privatization is the process of handing over ownership, management, and control of public sector businesses to private sector business owners.

A larger involvement for the private sector in the nation's economic activity is implied by privatization. The Indian government has reduced its ownership of a number of public companies throughout time, such as Maruti Udyog, IBP, and IPCL. Modernization and better financial discipline were the two key goals of privatization. Additionally, it was thought that administrative skill and private funding would aid in raising PSU performance.

Two strategies are available for privatization:

I. The government's ownership and administration of public sector enterprises are transferred to the private sector.

II. Public sector undertakings (PSUs) are privatized by selling a portion of their stock to the general public. Disinvestment is the name given to this process.

GLOBALIZATION

The process of integrating a country's economy with the global economy by removing obstacles to financial flows and international trade is known as globalization. Most people define globalization as the process of integrating a nation's economy with the global economy. It is a complicated phenomena, though. It is the result of a number of different policies intended to change the world and make it more integrated and interdependent. It entails the development of networks and activities that cut across social, political, and economic divides. To put it briefly, the goal of globalization is to eliminate borders.

Changes made by globalization of the Indian economy

1. The New Economic Policy compiled a list of high-technology and high-priority industries for investment, within which foreign direct investment up to 51% of foreign stock will automatically be permitted.

2. In high priority industries, automatic clearance is granted for foreign technology agreements up to a rupee one crore limit. Currently, recruiting foreign technicians and testing domestically created technology overseas are both free of permit requirements.
3. In July 1991, the rupee was devalued by around 20% in order to adapt Indian currency for use abroad. It increased the flow of foreign money, inhibited imports, and promoted exports.
4. The Indian rupee was rendered partially convertible in the 1992–1993 Union Budget and completely convertible in the 1993–1994 Budget in order to connect the Indian economy with the rest of the globe.
5. To provide the groundwork for the globalization of India's international commerce, the government established a new export-import strategy that would last for five years, from 1992 to 1997. The strategy increased the influence of market forces on exports and imports by eliminating all limitations and controls on foreign commerce.
6. The government has significantly altered the customs tariff in an effort to bring the Indian economy into line with international competitiveness. As a result, in the 2007–2008 budget, the highest rate of customs tax was lowered from 25% to 10%.

REASONS FOR ECONOMIC REFORMS

In 1991, India's economic situation was dismal. It was the result of a variety of factors acting together. Let us explore the different issues that prompted the necessity for fundamental economic reforms in the country.

1. **Poor performance by the public sector**: During the 40-year era (1951-1990), the public sector played a major role in India's economic growth. However, with the exception of a few public firms, general performance was quite poor.
2. **Deficit in the Balance of Payments (BOP):** A BOP deficit occurs when foreign payments for imports exceed foreign proceeds from exports. Even after implementing high taxes and restrictions, imports increased significantly. On the other hand, export development was

modest due to the low quality and high pricing of Indian commodities on the international market.

3. **Inflationary Pressures:** The general price level in the economy has consistently risen as a result of increased money supply and a lack of basic items.
4. **Decrease in foreign exchange reserves:** Foreign Exchange Reserves (also known as Forex Reserves or FX Reserves) are external assets (such as convertible foreign currencies, gold, special drawing rights, and so on) kept by the Central Bank for direct financing of external payment imbalances. Foreign currency reserves plunged to their lowest level in 1991, triggering the country's foreign exchange crisis. Foreign exchange reserves fell to an inadequate level. Financing imports for almost two weeks and paying interest to overseas lenders.
5. **Massive debt burden:** The government's expenditures were far larger than its revenues. As a result, the government was forced to borrow money from public and private banks as well as foreign financial organizations.
6. **Inefficient Management**: The root of the financial crisis may be traced back to India's inefficient economic management.
   - To address difficulties like as unemployment, poverty, and population increase, the government needed to produce excess money. However, no more money was generated as a result of the government's ongoing investment in development programs. Furthermore, capable of generating adequate money from internal sources such as taxation and the operation of public-sector firms.
   - At times, foreign exchange borrowed from other nations and international financial institutions was used to fulfill consumer demands. Furthermore, little attempt was made to curtail such excessive or irresponsible expenditure, nor was any attention paid to increasing exports to offset rising imports.
   - Government spending began to surpass revenue by such wide proportions that it became unsustainable.

AN APPRAISAL OF LPG POLICIES (ECONOMIC REFORMS)

Arguments in Favour of Economic Reforms

1. **An increase in the rate of economic growth:** from 1980 to 1991, GDP grew at a 5.6% annual pace, while from 2017 to 2018, it grew at a 6.7% annual rate. The second quarter of 2021, spanning from July to September, saw an astounding 8.4% GDP growth rate.
   Agriculture has grown less over the reform era, and the industrial sector has shown fluctuations, while the service sector has grown more. This suggests that the expansion in the service sector is the primary driver of the increase.
   There has been a decline in the growth rates of many sectors between 2012 and 2015. Agriculture had a strong growth rate in 2013–14, but the following year saw a decline in growth. In 2014–15, the service sector saw the greatest growth rate ever—10.3%.
2. **Foreign Investment Inflow:** Foreign direct investment (FDI) has increased rapidly as a result of the economy's opening up. Between 1990–1991 and 2017–2018, foreign investment (FDI and foreign institutional investment) climbed from around US$100 million to US$30 billion.
3. **Increase in Reserves of Foreign Exchange.** The foreign exchange reserves climbed from around US $6 billion in 1990–1991 to approximately US $443 billion in 2018–19, and as of November 26, 2021, according to the RBI, they were estimated to be US $637.687 billion. India holds one of the world's greatest reserves of foreign exchange.
4. **Export Growth:** India's exports of automobile components, pharmaceuticals, engineering products, IT software, and textiles have increased significantly since 1991.
5. **Inflation Control:** Production growth, tax changes, and other reforms assisted in bringing inflation under control. Between 1991 and 2015–16, the annual rate of inflation decreased from a peak of 17 to around 5.48%. According to RBI predictions, inflation year 2022–2023 will fluctuate between 4.5 and 5.2%.
6. **Expanding Private Sector Role:** The private sector's operational area has grown as a result of the elimination of the licensing system and the lifting of barriers to entrance for the private sector into formerly public domains.

Criticism of Economic Reforms

1. **Increasing Joblessness** Even if the GDP growth rate grew throughout the reform period, the nation did not see enough job possibilities as a result of this rise.
2. **Neglect of Agriculture:** Compared to the industries, commerce, and services sectors, the agricultural sector has been neglected by the new economic policy.
   Decrease in public investment; Public investment in the agricultural sector has decreased, particularly in infrastructure (roads, irrigation systems, electricity, and market connections), as well as in research and extension (which was essential in the Green Revolution).
3. **Low level of Industrial Growth:** The following factors contributed to the slowdown in industrial growth:
   (i) Cheaper Imported products: As a result of increased capital and products movement from industrialized nations brought about by globalization, domestic industries were vulnerable to imports. The need for native goods was supplanted by cheaper imports, and domestic firms began to face competition from imports. For instance, Indian producers are being threatened by cheaper Chinese items.
   (ii) Inadequate infrastructure: A lack of investment has kept the infrastructure—including the electricity supply—inadequate.
   (iii) Non-Tariff Barriers by Developed Countries: India no longer has any quota limits on exports of apparel and textiles. However, several industrialized nations, such as the USA, still impose quotas on the import of Indian textiles.
4. **Ineffective Disinvestment Policy:** The government has consistently set a goal for Public Sector Enterprises (PSEs) disinvestment. For example, the goal was to disinvest and raise 2,500 crore in 1991–1992. More than the goal amount of 3,040 crore was raised by the government. The aim for 2017–18 was 1,00,000 crore, however only around 1,00,057 crore were reached.
   Moreover, rather than being used to expand PSEs and construct the nation's social infrastructure, the earnings from disinvestment were utilized to make up for a lack of government income

5. **Inefficient Tax Law:** During the reform period, taxes were lowered in order to increase revenue and reduce tax evasion. However, the government did not receive an increase in tax income as a result.

   • The potential to generate income from customs duties was reduced by tariff lowering.

   •The potential to increase tax revenues was further limited by the tax incentives given to international investors in order to attract foreign investment.

6. **Consumerism's Spread:** By promoting the manufacture of luxury and high-end goods, the new strategy has been fueling a risky trend of consumerism.
7. **Unbalanced Growth:** Instead of important sectors like agriculture and industry, which support millions of people nationwide, growth has been concentrated in a small number of services-related areas, such as telecommunication, information technology, finance, entertainment, travel and hospitality services, real estate, and trade.

OUTSOURCING

Outsourcing refer to contracting out to a third party some tasks that were previously completed by the organization is known as outsourcing.

- One of the significant effects of globalization is outsourcing. A growing number of businesses in the industrial and service sectors are turning to outsourcing.
- It has been more intense in recent years due to the expansion of quick communication channels, especially information technology (IT).
- Modern telecommunications lines enable the digitization and real-time transmission of text, speech, and visual data related to these services across national borders and continents.
- India has become a favourable destination of outsourcing for most of the MNC's because of:
  - Availability of Skilled Manpower: India has vast skilled manpower which enhances the faith of MNCs for investment in India.
  - Favourable Government Policies: MNCs get various types of lucrative offers from the Indian Government such as tax holidays, tax concessions, etc.
  - Low Wage Rates and availability of cheap labour in India for skilled work.
  - Considerable growth of Indian IT industry, which has proved its competitive strength in the world.

WORLD TRADE ORGANISATION (WTO)

1. Origin of World Trade Organisation (WTO)

The General Agreement on Trade and Tariffs (GATT) was a worldwide trade organization founded in 1948 with 23 member nations, preceding the World Trade Organization. GATT was established to oversee all multilateral trade agreements by giving every nation in the world market equitable access to markets. Established in 1995, the World Trade Organization (WTO) replaced the GATT.

- To promote international commerce, the WTO accords embrace both commodities and services trade.
- The World Trade Organization now has 164 member nations, and each member is expected to follow the laws and regulations established by the WTO. India, a significant WTO member, has taken the lead in promoting the interests of the developing countries and drafting just international laws and regulations.
- India has lowered tariff rates and eliminated quantitative import limitations as part of a realistic trade liberalization effort.

2. Some Major Functions of WTO:

1. One of the WTO's main roles is to remove tariff and non-tariff obstacles in order to enhance international commerce, both bilateral and multilateral;
2. To set up a trading system based on rules, wherein countries are not allowed to arbitrarily impose trade barriers;
3. To increase service output and commerce;
4. To make sure that global resources are used as efficiently as possible;
5. To safeguard the environment

DEMONETISATION.

On November 8, 2016, the Indian government announced a decision that would have a significant impact on the country's economy: high-value notes with denominations of $500 and $1,000 would be demonetized immediately and would no longer be accepted as legal cash, with the exception of a few designated uses. The process of depriving a currency unit of its legal tender status is known as demonetisation.

The nation's currency supply was made up of around 86% of these notes. The system required consumers to deposit their faulty money in banks and restricted their ability to withdraw cash. Stated differently, limitations were imposed on the ability of local currency and bank savings to be converted.

Demonetization was needed to prevent corruption, counterfeiting, the use of large denomination notes for illicit purposes, and, most importantly, the amassing of "black money," which is defined as revenue that has not been reported to the government.

Characteristics of Demonetization

1. It is believed that demonetization is a "tax administration measure." Declared income cash holdings were easily deposited in banks and swapped for fresh notes. Those who possessed black money, however, were required to report their unreported riches and pay taxes at a penalty rate.
2. Demonetization is also seen as a change in the government's stance, signaling that Ta Evasion would no longer be allowed or acknowledged.
3. Another effect of demonetization was to direct funds into the established banking system. Even yet, a sizable portion of the money placed in the financial system will inevitably be taken out. However, a few of the banks' new deposit plans would still provide base loans with reduced interest rates.
4. Another goal of demonetization is to reduce the amount of cash in the economy by directing more savings into the official banking system and enhancing tax compliance.

GST (GOODS AND SERVICES TAX)

In India, the "Goods and Services Tax," or GST, is a comprehensive indirect tax that has taken the place of several other indirect taxes. On March 29, 2017, the Parliament enacted the Goods and Service Tax Act. The Act becomes operative on July 1st, 2017. Every value addition is subject to this comprehensive, multi-stage, destination-based tax. One of the most significant tax changes since independence has been the Goods and Services Tax.

The Indian government imposed the products and Services Tax (GST) with the goal of creating a single market to facilitate the seamless movement of products and services throughout the nation, adhering to the principle of "One Nation, One Tax."

- Taxes not only provide funding for development but also serve as a vital means of holding the State responsible to its citizens. Efficient taxation guarantees that public monies are utilized efficiently to accomplish societal goals for long-term growth.
- In addition to these advantages, the Goods and Services Tax (GST) is anticipated to facilitate company tax compliance, lower tax burdens through the elimination of tax-on-tax, enhance tax administration, lessen tax evasion, expand the organized sector of the economy, and increase tax receipts.
- There is no longer a need to file several returns and assessments because the Goods and Services Tax (GST) has superseded 17 indirect taxes (such as Value Added Tax, Service Tax, Excise Duty, Sales Tax, etc.) and 23 cesses of the federal government and the states. It has streamlined how products and services are treated tax-wise.
- GST is levied at every step of value addition, and the supplier uses the tax credit mechanism to balance the levy on inputs at earlier value chain stages.
- GST is a destination-based consumption tax since it is passed on to the customer by the last dealer in the supply chain.
- The ability to claim input credits at every point in the value chain prevents the cascading impact of the GST (tax on tax), which is anticipated to lower commodity costs and benefit consumers.

The types of taxes levied under GST are:

1. **Central Goods and Services Tax (CGST):** It is the GST levied on the 'Intra-State' supply of goods or services by the Centre.
2. **State Goods and Services Tax (SGST):** It is the GST levied on the 'Intra-State' supply goods or services by the State (including Union Territories with legislature).
3. **Integrated Goods and Services Tax (IGST):** It is the GST levied on the 'Inter-State' supply of goods or services and is collected by the Centre. IGST is equivalent to the sum total of CGST and SGST.

Important GST Features

1. **GST Applicability:** The entire nation is subject to the GST.
2. **payable on Supply of products and Services:** Unlike the previous idea of taxing the production, sale, or provision of products or services, GST is payable on the "supply" of goods or services.
3. **Consumption-Based Taxation:** This approach contrasts the previous origin-based taxation premise with the consumption tax based on destination.
4. **GST with Imports:** Imports of products and services are regarded as interstate supplies and are thus subject to the appropriate customs charges in addition to the IGST.
5. **GST Rates:** Under the auspices of the GST Council, the Centre and the States mutually agree on the rates at which the GST, CGST, SGST, and IGST are imposed. There are four tax brackets for all products and services: 5%, 12%, 18%, and 28%. SEZ supply and exports are zero-rated.
6. **Payment of GST:** The taxpayer has many options for paying taxes, such as Internet banking, debit/credit cards, and Real Time Gross Settlement (RTGS)/National Electronic Funds Transfer (NEFT).