CHAPTER III
ECONOMIC LIBERALIZATION IN INDIA

Introduction:

In the foregoing chapter, it is observed that economic liberalisation and reforms are the underlying conditions for the promotion of foreign investments in India ~ it is the green signal to foreign investors for investment in India. The policy was promulgated in 1991 to resolve the following problems:

• To boost growth for accelerated economic development.

• To help reduce external debts and service charges.
• To enhance efficiency of the economy by encouraging investment in technology and infrastructures.
• To minimise risks to investors by regulating capital and money markets.
• To create business friendly environment by abolishing redundant restrictions.
• To do away with the state monopoly by disinvesting public enterprises.
• To allow access to investors to national and international capital and money markets.
• To guarantee protection of rights to investments, trade and intellectual property.

• To promote foreign trade.

• To integrate the national economy with the world economy within the parameters of UNO and WTO.

• To follow schedule of payment and repayment of external debts.

It is too difficult for the research study to go into all the areas of reforms. The study proceeds to sort out the major aspects of economic reforms that are relevant to the following aspects of foreign investments in India:
• Reforms for creating foreign investment friendly environment.
• Reforms for access to finance, trade and industry.
• Reforms for repatriation of capital and remittances.
• Reforms for foreign investors to own organise and manage their business in the country.

'Reforms for Environment Friendly To Foreign Investors:
Economic liberalisation policy identified following areas to create congenial environment for foreign investors:

Technology
Financing and Investment
Disinvestment in PSUs.
Foreign Trade.
Access To Credit and Capital Market.
Repatriation of capital and remittance of profit
Protection of investors' rights.

In the realm of technology the Indian policy on technology has passed through multiple phases from a cautious policy until mid-sixties to liberalisation policy since 1991. The cautious policy was abandoned due to foreign exchange crisis of 1957–58. Foreign collaborations enjoyed some relaxation to encourage direct investment. However, enactment of Foreign Exchange Regulation Act in 1973 controlled FDI inflows.
The oil crisis of eighties led the Government to encourage TNCs to undertake export-oriented manufacturing. The FERA was amended to remove restrictions on the operations of large business houses and the FERA companies. It was the beginning of the policy for economic liberalisation.

In nineties, serious external crisis developed in the country with foreign reserves touching the bottom low point. The government adopted the "open door policy" to carry out macro-economic and structural adjustments for up-gradation of technology and to seek foreign investments in new sectors. The enlarged area for technology
and FDI entry includes all manufacturing industries with a few exceptions of strategic concern reserved for the state.

*Financing and Foreign Investments* were restricted to keep out of control over industries. Foreign equity was never a majority stockholding in India prior to promulgation of economic liberalisation policy in India. FDI equity participation was restricted to less than 50 per cent in high technology areas. There is a sea change in the attitude of the state. The FDI is permitted to exceed the 50 per cent mark in export-oriented units and the other areas of their choice. Of course, the few areas are exclusive domains of the state
for strategic reasons. NRIs and overseas corporate bodies enjoy preferential treatment in respect of equity participation. It may be inferred that FDI has become an important channel for financing and investment.

State governments are offering fiscal incentives to foreign investors for location of industries in their states. The state governments are vying with each other in attracting large investors for development of infrastructures. The central government also has investment plans for foreign investments in the country.
Disinvestment Policy:

Disinvestment policy is an integral part of economic liberalisation that visualises an end to state monopoly. The first Disinvestment took place in 1991. Tranches of selected PSU shares were offered to banks and financial institutions. It has been seen that the Disinvestment has not been a success due to lukewarm support of the capital market to the offer. In 1992, the Disinvestment netted Rs.1611 crore out of the target for Rs.2500 crore. Experience with the Disinvestment policy revealed deficiencies in pricing and in preparing the Tranches. In the current year, the Disinvestment has been entrusted to
Disinvestment Commission, which is a statutory body to fix the price, timing and composition of the Tranches. It is free option of NRIs, PIOs, GDRs, FIIS and domestic investors to subscribe to the tranche offered by the Disinvestment Commission subject to the approval of the Government.

*Foreign Trade:*

Foreign Trade Policy has been drastically changed. In eighties, it incorporated a large number of provisions for controlling import and export. It was the result of protectionist trade policy, which was implemented through large control and licensing in relation to foreign trade. Since 1991, lacunae in Exim
Policy have been plugged off by removing quantitative controls on export and import. As a result, foreign trade can flourish in an atmosphere of freedom from the state controls.

**Access to Capital and Credit Market:**

It is an important landmark of the development of paperless share and trading system in the country. Securities and Exchange Board of India has been established as an autonomous body to regulate capital and credit market. It is not a controlling body. Companies are free to take financial decisions without the approval of the government. Foreign Institutional Investors,
Persons of Indian Origin and Non-Resident Indians (FIs, PIOs, and NRIs) have access to capital and credit market. Companies are free to raise funds from the international markets.

Monetary and fiscal reforms are made to reduce the cost of business operations in India. Taxes are reduced and the procedure simplified. Statutory liquidity reserves are being reduced. Banking and non-banking operations are gauged in terms of performing and non-performing assets. Gap in credit risks covered and transparency.
Repatriation of Profits
And Capital:

Foreign investments are based on returns and repatriability of profits and capital. Foreign investors enjoy relative freedom in respect of remittance of returns. A policy of full convertibility on current account and partial convertibility on capital account is in place. There is substantial relaxation in the policy to let the investors have freedom in respect of repatriation of returns and capital.

Protection of Rights to own and manage:

Rights to own and manage are a question of guarantee against expropriation. Though the state does not give guarantee against acquisition of assets, there is
provision for fair compensation. To allay fears of investors, India is member of Multilateral Investment Guarantee Agency (MIGA). Further, the country has bilateral investment guarantee agreements.

The Patent Law in India is being amended to give guarantee of intellectual property rights. The Patent Law and protection of trademarks are being revised to make them wider in coverage in tune with the standards required by the World Trade Organisation (WTO).

In conclusion, economic liberalisation is the firm policy of the state to ameliorate operational environment for foreign investors
in the country. The new economic policy has removed unnecessary restrictions on operations of large houses and flow of Foreign Investments. As a result of procedural and structural reforms, the country is heading towards a strong economy. It includes streamlining of procedures, raising of permissible equity limits, wider scope for investments in sectors of their choice. Further, the currency has been devalued to current market level. In foreign trade, import licensing has been abolished, tariff rates reduced. It is a positive step to deregulate exports by dismantling regulatory framework for exports. Steps have been taken to
liberalise domestic market. However, Trade Regulatory Authority of India has been established to observe compliance with existing rules and regulations. It is a welcome step to remove controls by discarding industrial licensing policy in respect of a large number of products. It is supported by deregulation of financial sector. It is easier to raise capital in domestic and foreign markets. Investors have strong incentives for portfolio investments. It would have favourable impact on return with lower and flatter rate of direct and indirect taxes. There is considerable progress in respect of price liberalisation for the products that were
subject to administered pricing. It would lead to virtual abolition of state monopoly with steps to expedite Disinvestment policy of public enterprises. In short, the country is heading for an open economy.
REFERENCES


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