Chapter 1

Introduction
INTRODUCTION

1.1 Meaning and Concept.

In general, **liberalization** (or *liberalization*) refers to a relaxation of previous government restrictions, usually in areas of social or economic policy. Liberalization of autocratic regimes may precede democratization (or not, as in the case of the Prague Spring). In the arena of social policy it may refer to a relaxation of laws restricting for example divorce, abortion, homosexuality or drugs. Most often, the term is used to refer to economic liberalization, especially trade liberalization or capital market liberalization.

The process of economic liberalization started in several countries across the world during 1980s and 1990s. This was when most of the countries adopted policies of deregulation, privatization and trade liberalization. This was also the time when the World Trade Organization (WTO) came into being. The WTO is a bundle of several agreements on goods and services, with various rules on how they are produced and traded, ensuring that there is healthy competition in the global market place. However, this is not enough, and therefore, at times, there was strong demand for competition rules to be integrated in the international trading system.

Trade and economic liberalization aided competition in the market by increasing the basket of goods and services with better quality and lower prices. Yet, anti-competitive practices undertaken by economic players or induced by inappropriate government policies have negated the gains of liberalization. With the adoption of market oriented reforms, there were several players in the market resulting in competition. But at the same time, many abuses too creep into the system. In order to balance the system, price controls and market regulations were put in place. But by and large they proved ineffective. This is why countries adopted competition and economic regulatory laws to promote a healthy market and economic democracy.

The main objective of competition policy and law is to preserve and promote competition as a means of ensuring the efficient allocation of resources in an economy. This should eventually result in fair prices and adequate supplies for consumers and, it is hoped, faster growth and a more equitable distribution of income.
While going through a phase of privatization and deregulation, often monopoly power is transferred from the public to the private sector which harms the interests of consumers, especially the poor. This situation requires an appropriate regulatory mechanism. International anti-competitive practices can also be harmful to small and developing countries without effective competition laws. Cross-border mergers and acquisitions that lead to market dominance and the restrictive practices that some trans-national corporations engage in also further necessitate competition rules.

Competition policy also promotes good governance in the corporate sector as well as in governments by diminishing the opportunities for rent-seeking behaviour and the corruption that often accompanies it. Competition law and regulatory tools are invoked mainly to take care of firm behaviour and market failures. Governments often intervene when markets fail but in the absence of a clearly defined competition policy and regulatory mechanisms, the intervention can be arbitrary and serve vested interests rather than the poor. It regulates the economic activity within the country by protecting business and consumers against abuses of economic power and promoting efficiency and consumer welfare.

With liberalization many players enter the market which also improves the investment climate of the country. Enhanced investment climate gives way to investment in the infrastructure segment which may come in form of government investments, private investments or by way of a public-private partnership. Increased investment leads to growth which in turn results in consumer welfare. ‘Investment’ thus gets increasingly integrated with trade. Competition policy plays an important role in removing barriers to market entry for foreign investors. Further, competition law provides necessary safeguard against arbitrary decision-making, apart from dealing with anti-competitive business practices by such investors. Investment through the M&A route is another area where there is significant interaction between investment and competition policy.

Globalization

Globalization broadly speaking means “integration of economies and societies through cross-country flows of information, ideas, technologies, goods, services, capital, finance and people."
The essence of globalization is connectivity."15 This laudable concept originally intended to sub-serve a more just and equitable world order. The implementation of NEP in India was also on the same note. But this very concept on the one hand, destroyed the traditional web of Indian economy, and on the other hand, it is unable to fulfill the very promise it made at its inception. Increasing export – orientation of national economies, the dismantling of tariff barriers to imports, the linking of national currency to International markets, the privatization of nationally owned assets etc. lead to serve contraction of public expenditure. The gains and losses from globalization can be analyzed in the content of the three types of channels of economic globalization.

(a) Trade in goods and services
(b) Movement of capital and
(c) Flow of finance

Rapid development of capital market and expansion in foreign exchange market are the important features of globalization. In the last decade, what the experts analyzed is of great concern. According to them poverty ratio had decreased considerably in last decade. Quality products with consumer friendly rates are available in the market. Therefore, opting out of globalization is not a viable choice at all. “Through the Bretton Woods Conference (1944) marked the beginning of a New World Trade Order which triggered economic changes based upon a paradigm shift implicit in the draft crafted by Arthur Dwnkel, eventuating in the Uruguay Round and the Final Act. One of the major objectives of this Dwnkel Draft Text was the creation of a new world wide market grab system – the hidden agenda – highlighted by the Orwell Ian Double speak: “globalization” “liberalization” and “privatization”. The thrust of course, was the capture of world markets by the International Corporate Power incarnate, under the hegemony of American Incorporated. We are going ahead towards Globalization without realizing the very effect of it on Indian economy. Though we are not in a position to go back but certainly, we have to control the implication of Globalization according to our norms and means. On the contrary, WTO, IMF and other great economic giants are controlling not only the economic policies of India but they are also influencing the political decisions of Indian political system. Our foreign economic policy is being directed by the WTO regulations, which are binding on us. In the words of honorable justice V. R. Krishna Iyer, “Globalization is the latest game of corporate
cannibal trying to occupy the economic space of the third world, a déjà vu of the old East India Company but with exponential potential aided and abetted by fifth columnist enterprises. The world is one. It is united by market hungry multinational corporations of the first world monopolizing the resources of third world, with the single Global objective of maximum profits and dismantling national private pignies and public sector industries.”

Globalization means different things to different people. In its broadest sense, the term encompasses all types of economic and cultural transfers between nations – including domination of the media and widespread use of the world wide web. In a narrower sense, it refers to the economic exchange of goods and services internationally and international financial flows. In this paper, we concentrate on the economic aspects of globalization, and particularly on trade and investment liberalization and its impacts on workers in the informal economy.

Global trade and investment patterns are having a dramatic impact on employment relations and work arrangements around the world. But there is no single meaning of economic globalization for the global workforce. The impact can be both negative and positive and differs by context, by industry and trade, and by employment status. Some of those who work in the informal economy have been able to find new jobs or new markets for their products while others have lost jobs or markets. Moreover, many workers have seen their wages decline, their working conditions deteriorate, or their workloads increase. Although increasing attention is being given to the impact of globalization and trade liberalization on labour, much of what has been written is as yet quite theoretical, very generalized, or mainly anecdotal. In addition, there is a bias towards looking at the impact of globalization on formal wage work and, to a lesser extent, on informal employment.

Privatization

Another important concept and phenomenon which is continuously influencing the Indian Economic System is Privatization: Adam Smith was the first to adduce economic reasons to justify privatization. He observed: “no two character seem more inconsistent than those of trader and sovereign. In the words of S. R. Maheshwari, “Privatization is the transfer of control of ownership from the public to private sector, such a transfer being necessarily associated with market liberalization and deregulation, changing the macro economic context, the competitive
environment and the labor market of the country. It refers to “full conversion of property rights from the state of collective owners to private owners.” Privatization is an emotionally charged term in countries like India and is viewed as an ideologically and politically explosive issue. In the words of Samir Amin Globalization and Imperialism is nothing new. The history of capitalism since the very beginning has been the history of imperialist expansion. And the system was always global – globalization has always been imperialist globalization. It has never been achieved by peaceful and equal negotiations between peoples. Over this, Rightist has their own view. According to them “change is always for better and happens spontaneously. Change is always painful, but it is always transitional. The market, that is capitalism, will itself solve the problem in the long run when everybody is dead.” It is not ideology but propaganda. G-7, W. H. O., I. M. F., World Bank is not global organizations but organization of Global North.

Privatization is the backbone of globalization. In India privatization of crucial and core industries had already taken place. Blind privatization of each and every industry is not the proper solution for hanging Indian economy. Innovative solutions are needed to solve this problem. Indeed, evidence from all over the world is accumulating to declare that the private sector has failed miserably in urban water supply. Yet, the Asian Development Bank (ADB), the World Bank and the WTO /GATT’S continue to push this policy exhibiting an ostrich – like attitude to the realities. There is no doubt that public systems failed miserably in providing efficient water services to the poorer sections of society because of lacking managerial skills, inefficient, corrupt and ineffective officials. Yet, this is not the correct cause to privatize water industry. According to Hon’ble justice V.R.Krishna Iyer, “It is unconstitutional, unethical and violative of Human Rights to sell or negotiate disposal of publicity owned water resources for mineral water rackets by industrial giants. The locus classicus on this point is blazed in M. C. Mehta v/s Kamal Nath. “The notion that public has a right to expect certain lands and natural areas to retain their natural characteristics is finding its way into the laws of the land. The ancient Roman Empire developed a legal theory known as the ‘Doctrine of Public Trust’. The Public Trust Doctrine primarily rests on the principle that certain resources like air, sea, waters and the forests have such a great importance to the people as a whole that it would be wholly unjustified to make them a subject of private ownership. The said resources being a gift of nature, they should be made freely available to every one irrespective of the status on life.” The Pamba of the Malampuzha (the Ganga or the Narmada) belong to the people and the state cannot abandon its fiduciary obligation. It is
unconstitutional, unethical and violative of human rights to sell or negotiate disposal of publicly owned water resources for mineral water rackets by industrial giants. Unfortunately, the liberalization ideology has become a synonym with privatization of not only the economy as a whole but also of marketisation of governmental functions and public services thus, resulting in creation of a 'police state' which is against the ethos of a welfare state. Surprisingly entire world is converted into a big market.
1.2 Purpose of the study

As we all know, the economic reforms were initiated in 1991 in India in a demonstrative way after the assassination of Rajiv Gandhi. A period of eight years has elapsed since then and today the same social forces that had opted for the liberalization and privatization policies in 1991 are speaking of a "second wave of reforms". These reforms have had a great impact on the Indian economy. These impacts have been the both the positive and the negative. The main purpose of the study to study these impacts on the various sectors of the economy. My another motive has been to study the impact of the others factors that have contributed to the impact. There has been a drastic change the thinking manner of the Indians. There has been an impact on the various sectors like on agriculture, industrial etc. I have also tried to find out the various causes that are responsible for taking the Indian economy to the new horizon like the role of FDI's FII etc.

My another main motive is to study the difference between the status of the Indian economy before and after the period of liberalization. I have tried to study the major three sectors of the economy and how have these sectors been affected as the result of the reforms.

Since Indian economy is a developing economy whereas on the another hand India's trade relation spreads over a number of countries including the developed ones. Therefore I have to analyse its impact on terms of trade, balance of trade and balance of payments. Since the opening of the Indian economy to the foreign companies and initiation of the reforms since 1991 my another motto is to study the gains of the international trade. Whether the economy and the country men have reaped the benefits of Liberalization, Privatisation and Globalisation.

On the basis of suggestion and findings may also be send to the concerned ministeries for consideration. Incase the results are positive then we have to speed up the process of second generation reforms otherwise provide safeguards (Incase the gains are less). These safeguards will be beneficial for the policy makers, export and import managers and the concerned ministeries.
HYPOTHESIS OF THE STUDY

For Conducting fair research an alternative hypothesis has been assumed

- India is a Sovereign State and persons independent rational policies
- India is a permanent member of the world bodies like WTO, IBRD, IMF, UN and their affiliates.
- Indian delegates deliberate, contribute in the forum of the world bodies.
- Indian experts are also appointed on various regional bodies, and supervise the activities, enjoy adequate amount of freedom to protect the interest of the nation.
- All the members contribute including India have equal rights
- Due consideration is given to the problems faced by the Less Developed Countries (LDC) and remedial measures are adopted.
1.3 Period of liberalization from 1991 till date

India embarked on a series of economic reforms in 1991 in reaction to a severe foreign exchange crisis. Those reforms have included liberalized foreign investment and exchange regimes, significant reductions in tariffs and other trade barriers, reform and modernization of the financial sector, and significant adjustments in government monetary and fiscal policies.

The reform process has had some very beneficial effects on the Indian economy, including higher growth rates, lower inflation, and significant increases in foreign investment. Real GDP growth was 6.8% in 1998-99, up from 5% in the 1997-98 fiscal year. Growth in 1999-2000 is was around 6%. Foreign portfolio and direct investment flows have risen significantly since reforms began in 1991 and have contributed to healthy foreign currency reserves ($32 billion in February 2000) and a moderate current account deficit of about 1% (1998-99). Growth in 2007-08 was 9.2% and it is expected to grow better in the coming years.

India's economic growth is constrained, however, by inadequate infrastructure, cumbersome bureaucratic procedures, and high real interest rates. India will have to address these constraints in formulating its economic policies and by pursuing the second generation reforms to maintain recent trends in economic growth.

India's trade has increased significantly since reforms began in 1991, largely as a result of staged tariff reductions and elimination of non-tariff barriers. The outlook for further trade liberalization is mixed. India has agreed to eliminate quantitative restrictions on imports of about 1,420 consumer goods by April 2001 to meet its WTO commitments. On the other hand, the government has imposed "additional" import duties of 5% on most products plus a surcharge of 10% over the past 2 years. The U.S. is India's largest trading partner; bilateral trade in 1998-99 was about $10.9 billion. Principal U.S. exports to India are aircraft and parts, advanced machinery, fertilizers, ferrous waste and scrap metal, and computer hardware. Major U.S. imports from India include textiles and ready-made garments, agricultural and related products, gems and jewelry, leather products, and chemicals. As India moved into the mid-1990s, the economic outlook was mixed. Most analysts believed that economic liberalization would
continue, although there was disagreement about the speed and scale of the measures that would
be implemented. It seemed likely that India would come close to or equal the relatively
impressive rate of economic growth attained in the 1980s, but that the poorest sections of the
population might not benefit.

Significant liberalization of its investment regime since 1991 has made India an attractive place
for foreign direct and portfolio investment. The U.S. is India's largest investment partner, with
total inflow of U.S. direct investment estimated at $2 billion (market value) in 1999. U.S.
investors also have provided an estimated 11% of the $18 billion of foreign portfolio investment
that has entered India since 1992. Proposals for direct foreign investment are considered by the
Foreign Investment Promotion Board and generally receive government approval. Automatic
approvals are available for investments involving up to 100% foreign equity, depending on the
kind of industry. Foreign investment is particularly sought after in power generation,
telecommunications, ports, roads, petroleum exploration and processing, and mining.

In 1991, many left wing critics as well as BJP stalwarts predicted that the reforms would bring
fire, flood and plague. Many talked of India suffering a lost development decade, like Africa and
Latin America in the 1980s. In fact India recovered within one year, and then zoomed to record
rates of economic growth and literacy improvement. Forex reserves soared to $43 billion, and the
debt service ratio halved to 16 per cent. Literacy soared from 52 per cent to 64 per cent, by far
the fastest improvement in any decade.

India has seen different Prime Ministers in succession in the last several years years and just this
morning the sixth one has been voted out of office. If anything, this indicates that there are
serious conflicts in the ranks of the big business houses of India about the direction they want to
take at this time. Few years ago, the then Prime Minister Deve Gowda was replaced in the midst
of the Lok Sabha debate on the budget. Interestingly, although the Prime Minister was replaced,
his Finance Minister, P.Chidambaram remained in the “new” cabinet under I.K.Gujral to oversee
the continuation of the economic reforms that he and his predecessors were architects of. In fact,
the defeat of the Narasimha Rao government in the 1996 elections was widely seen as the
rejection of the economic policies it had put in place since 1991. The further loss of support they
suffered in the 1998 elections was also a reflection of this. But while the Congress(I) and
Narasimha Rao were voted out of office, their policies have continued and are being deepened. The leaders of all the political parties represented in the Lok Sabha have embraced those policies. Whoever forms the next government will undoubtedly continue the same policies. It can be said with confidence that the present political crisis and disequilibrium will thus continue, until the time that people are able to force a change in the direction of Indian economy.
1.4 Research Methodology

Research Design:

It is framework or blue print, which tells about the research work.

It is a master plan specifying method and procedures for collection and analysis of required data.

Source of data collection:

There are two types of data for collecting the adequate information

1. Primary data
2. Secondary data

1. Primary data:

The primary data are those which are collected fresh and for the first time, and thus happen to be original in character.

2. Secondary data:

Secondary data the secondary data are those which have already been collected by someone else and which have already been passed through the statistical process. My Thesis based on the secondary research as it relates to the economy on the whole. Conducting a primary research was not actually possible but at some places I have spoken to the individuals regarding certain areas. The data under study will be secondary in nature. That is the data will be collected from secondary resources such as Internet, Magazines, Books, Journals, Published articles and cases from the same sectors. The Different Types Of Secondary Data Used Are As Follows:

- Documentary Secondary Data- these are often used in research projects that also use primary data collection methods. Documentary Secondary Data includes Written Documents such as notices, correspondence, diaries, and administrative and public records. Written Documents also include books, journals and magazine articles and newspapers. There is an
extensive use of books and journals in my research. Documentary Secondary Data also includes non-written documents such as tape and video recorders, pictures and drawings etc.

- **Multi-Source Secondary Data**- multiple-source secondary data can be based entirely on documentary or on survey data or can be an amalgam of the two. The key factor is that different data sets have been combined to form another data set prior to access the data.

**Advantages of Using Secondary Data**

- For many research questions and objectives the main advantage of using secondary data is the enormous saving in resources, in particular the time and money. In general it is much less expensive to use secondary data than to collect the data yourself.

- If the data is needed quickly, secondary data may be the only viable alternative. In addition, they are to be higher in quality data than could be obtained by collecting your own.

- Re-analyzing secondary data can lead to unforeseen or unexpected new discoveries.

- Unlike data that is collected on own, secondary data generally provide a source of data, which is both permanent and available in a form that may be checked relatively easily by others.
1.5 **Review of literatures**

Under review of literatures we are going to examine the views of different authors regarding the policies and liberalization.

Land policy in the First Five Year Plan was thus formulated without sufficient knowledge about the size and distribution of land holdings in the rural sector. A considerable volume of data was collected for the time in the Eight Round (1954) of the National Sample Survey for size and distribution of land holdings. However, the draft report of the NSS Eight Round was only submitted to the union government in January 1960, nearly six years later. It, therefore, did not serve the purpose of planners to assess the magnitude of the problem involved in structural reorganization.

Defects in policy planning became conspicuous in the implementation stage of the land reform programme. Legal, administrative and other factors became principal bottlenecks. In the process, the error of doing the right things too slowly became increasingly costly. Policy makers failed to take into account the importance of the time dimension for the success of the reforms. A go-slow programme of implementation failed to make effective impact upon many working cultivators.

According to C Rangarajan the new economic policy comprises the various policy measures and changes introduced since July 1991. The thrust of the new economic policy towards creating a more competitive environment in the economy as a means to improving the productivity and efficiency of the system. The industrial policy seeks to bring about a greater competitive environment domestically, the trade policy seeks to improve international competitiveness subjected to the protection offered by tariffs. The private sector is being given a larger space to operate in some of the areas reserved exclusively for the public sector are also now allowed to the private sector. In these areas the public sector will have to compete with the private sector even though the public sector may continue to play the dominant role. The overall objective of the industrial policy is to improve productivity and efficiency. In a competitive environment, both public and private sector units are expected to show improved productivity and greater expansion in output. As per his views we lived beyond our means in 1980’s. A correction is thus called-for. It has to be made in a manner that the burden does not fall heavily on the weaker
sections. It is for this reason that the programmes meant for alleviating poverty are not only being kept but are also being strengthened. The stabilization policies coupled with the structural reform policies should ultimately result in accelerated growth which is the best answer to poverty.

As per the views of T.N. Srinivasan Indian economic development strategy, particularly relating to industrialization has been driven by perceived foreign exchange scarcities and the desire to ensure that scarce foreign exchange is used only for the purposes deemed "essential" from the perspective of development. Industrialization and self-sufficiency in essential commodities have been important objectives of policy in no small part because of the fear that dependence on other, more powerful countries for imports of essential commodities would lead to political dependence on them as well. According to him India's growth performance in the decades since planning for national development was initiated in 1950 has been unspectacular. In 1950s, 1960s, 1970s the average annual growth rate of real GDP was 3.7 percent, 3.3 percent and 3.4 percent. The 1980s saw some modest improvement in the growth rate to 5.3 percent. India's development strategy was inward oriented, and self-reliance was an important objective. The pursuit of this objective has resulted in a diversified industrial structure. Most of India's industries, however, are not internationally competitive in terms of either cost per unit or production or quality.

Far from viewing foreign trade as an engine of growth, Indian planners sought to minimize import demand and viewed exports more or less as a necessary evil mainly to generate the foreign exchange earnings to meet that part of the import bill not covered by external assistance. They created an elaborate administrative regulatory machinery in an attempt to control investment and resource allocation in the economy and ensure their consistency with five-year plan targets. Control over imports and exports were also part of this regulatory system. It is evident that to achieve sustained, rapid, equitable and efficient growth, India must abandon its inward-oriented, capital intensive and inefficient development strategy implemented through an administration allocation system. In its stead a system of economic management must be put in place that relies largely on market forces and that confines state intervention in the economy to investment in some infrastructural sectors.
According to Rakesh Mohan view it is believed that if India wants to come out of the darkness then there should be long term economic growth. As per his views it is expected that the progress achieved in the year 1980s should have taught us the lesson that higher economic growth must be the key objective of economic policy, and that it is only higher economic growth that can reduce poverty and provide sustainable economic security. No distribution can take place when there is nothing to distribute. The nation cannot be secure without economic strength and economic strength cannot be achieved without substantial growth.

The main impediment to the achievement of this scenario is the deteriorating fiscal situation of both the state and central governments in India. Government’s ability to invest has been declining continuously since the late 1980s because of the deteriorating fiscal position. What is encouraging, of course, is the increase in the private corporate sector investment levels subsequent to the 1991 reforms. The reforms have therefore succeeded in encouraging higher levels of private investment as envisaged.