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LIBERALISATION

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ABSTRACT

KEYWORDS:

INTRODUCTION

In the Indian Context, economic liberation is necessary for rapid economic growth. Since 1991, one issue on which as almost total political consensus has emerged across the ideological spectrum is the imperative need for rapid economic growth, i.e. the widespread acceptance of the need for the Indian economy to achieve and maintain 7 percent plus annual growth rate of gross domestic product (GDP) at constant prices (or in 'real' and not in nominal terms). Historical experiences of the nineteenth century and the most immediate post Second World-War show that freer and more competitive markets domestically and freer multilateral trading arrangements according to widely accepted rules of the game offer the most favourable enabling environment for rapid growth. What is more important, despite the global trading environment growing more volatile over time, several low-income countries have achieved and maintained rapid growth by successfully participating in the global trade. These countries include a large country like Mainland, China, Indonesia and other Countries like Taiwan, South Korea, Thailand and Malaysia. Three to four decades back, the per capita GDP of these countries was not much different from that of India at that time. Today, these countries enjoy per capita GDP several times that of India as a result of rapid economic growth. Economic liberalisation contributes towards creating an enabling environment of freer and more competitive markets and hence is expected to enhance the probability of India achieving higher rate of growth and maintaining it.

Process of economic liberalisation has rather started a new economics in the economy of our country. Some people call it as **"Manmohanomics"** some as **"Raonomics"** and some other as **"Rao-Mohanomics"**. There is one more category of persons, particularly of political arena, who try to pit it against **'Populonomics'**[1].

LIBERALISATION: MEANING

These seem to be a lot of confusion over it. Hence, we shall have to be very clear about the meaning, concept and implications of economic liberalisation in current-Indian context. The term 'economic liberalisation' means and includes mainly[2]

(a) Dismantling of industrial licensing system built over past 4 decades;

(b) Reduction in physical restrictions on imports, reduction also in the rate of import duties;

(c) Reduction in controls on foreign exchange, both current and capital account;

(d) Reform of financial system;

(e) Reduction in levels of personal and corporate taxation.

(f) Reduction in restrictions on foreign investments (direct and portfolio);

(g) Opening up of areas hitherto reserved for public sector (basic industries, power, transport, banking etc.)

(h) Partial privatisation of public sector units (with or without passing on majority control to the private shareholders);

(i) Change in approach towards industrial sickness.

(j) Softness of MRTP regulations; and

(k) Finally, to make various sectors of Indian economy competitive on a global scale, by making them product quality goods in a cost-effective manner.

WHAT THE TERM LIBERALISATION DOES NOT MEAN ?[3]

'Liberalisation' means removal of controls and not of regulation; the latter, in fact needs further tightening up in a control-free regime. Free market does not mean free for all. Regulations, in this context mean prescribing rules of the game. Some examples are:

(a) SEBI regulations;

(b) Banking and financial sector regulations;

(c) Stricter restrictions on unfair trade practices; and

(d) To some extent (not entirely) liberalisation policy also seeks replacement of physical controls by financial controls.

Liberalisation does not imply any secret deals, 'behind the curtain' decision-making or tightening up secrecy in any name or any garb, in the matters of procedures and working of the economy.

ECONOMIC LIBERALISATION: MEANING[4]

The wide-ranging economic reforms undertaken since July 1991 are described in a capsule form of economic liberalisation. Economic liberalisation has two components:

(a) Relaxing or removing mostly counter-productive government-imposed restrictions on the operation of the various markets and on domestic and international economic transactions so as to permit a freer operations to the market forces; and

(b) Creating a stable macroeconomic policy environment conducive to the market forces.

Component (a) is expected to contribute towards structural adjustment, whereas (b) is a part of what is described as stabilisation.

Relaxation or removal of restrictions on economic transactions may involve.

(i) Procedural changes such as changing the procedures of licensing of imports, foreign investment or domestic investment.

(ii) (ii) Legislative changes such as repeal of outdated legislation like FERA and ULCRA or putting in place legislation such as SEBI, IRAI, TRAI, CERC and SERCs etc.

ECONOMIC LIBERALISATION: MEAN FOR THE MIND SET

At the fundamental level. basic reason underlying the low rate of economic growth till the end of 1970s can be traced to the bash premise underlying the earlier development strategy namely market mediated distributional outcome would always be distinctly worse in terms of equity than the government mediated distributional outcome emerging from government intervention for the regulation of market forces and extended operation of the public sector. This reflected the mindset of the deep seated distrust of the market forces and reverential faith in the benevolence and capability of the state. The low rate of economic growth combined with persistent poverty led to the questioning the validity of the basic premise and the rationality of the mindset.

ECONOMIC LIBERALISATION: MEAN FOR THE DEVELOPMENT STRATEGY

Economic liberalisation involves a major shift in the development strategy

(a) Away from minimizing the rehance on the international division of labour toward progressive integration with the global economy and aggressive participation in it;

(b) Away from over extended, overstaffed and inefficient public sector in the commercial activities and towards the clearly focused government performing the core functions of governance, provision of public goods (like defence) and concentration on social sectors like health and primary education; and

(c) Away from the direct discretionary control regime of license-permit raj for regulating private sector economic activity and towards freer play of the functioning markets.

The new strategy is based on the diagnosis that persistent poverty has been the result of inadequate expansion of productive employment opportunities and persistent scarcity of goods and services much more than relatively unequal distribution of income and wealth and that the market forces offer the best available cost-effective instrument for alleviating scarcity and hence poverty. It does not mean minimal government but refocusing its activities – away from the under-performing over-activity in a wide-range of activities in the commercial domain and towards core functions in the classical fiducial domain marked currently by under-activity and which the markets are no good at performing, namely as noted above effective governance consisting of ensuring the protection of life, liberty and private property, provisions of public goods plus basic health and primary education. In its concept and design, economic liberalisation involves markets and the state to play mutually reinforcing complementary roles rather than the mutual suspicion that marked their interaction in the past.

LIBERALISATION – AN OPPORTUNITY FOR GROWTH[5]

It will be a misnomer if economic liberalisation is taken as an easy path or a short-cut to development process. Usually economic growth is neither 'spontaneous' nor 'instant' nor can it be achieved without hard-work, perseverance and determination on a national scale. And there are no substitutes anywhere to hard-work, perseverance and determination. The only significant thing is that the process of economic liberalisation has afforded us a significant opportunity to come forward to learn from the experiences of other, to interact on a global scale, to build up our strength, to become world players and to excel. And we can hardly afford to loss sight of such important an opportunity, because as a proverb goes – "Opportunity seldom knocks at your door twice".

Moreover, there is a saying that India missed the first industrial revolution due to colonialism. It missed the second industrial revolution due to socialism. Therefore, the country cannot and must not miss the third revolution which is getting underway during the process of liberalisation.[1]

WAVE OF LIBERALISATION[6]

The biggest metamorphosis in our economic climate came in June 1991 with the 'Rao Singh' combination and with the enunciation of the new Economic Policy **'Raonomics'** in July 1991. This alignment made herculean efforts to embark the country on the road to globalisation, through privatisation and liberalisation, and since then, India has been making major shift in its developmental programmes – from command economy to market economy.

The process of liberalisation and economic reforms undertaken since July, 1991 have opened the economy for an accelerated growth. A series of economic reforms have been announced which include relaxation of the industrial regulatory involvement, liberalising international trade, easing of exchange control, encouraging foreign investment, reforms in the financial sector and in taxation as well as the government subsidy and dis-investment in public sector enterprises. These measures have far reaching impact of Indian economy in general and on our corporate sector in particular.

ECONOMIC REFORMS UNDER RAJIV GANDHI REGIME [1985-90]

Soon after taking over as Prime Minister in 1985, Mr. Rajiv Gandhi outlined the new trends in economic policy of the Government. The recipe suggested by him was: Improvement in productivity, absorption of modern technology and fuller utilization of capacity must acquire the status of a national campaign. The basic thrust of the New Economic Policy was a greater role for the private sector.

To provide larger scope to the private sector, a number of changes in policy were introduced with regard to industrial licensing, export-import policy technology upgradation, fiscal policy, foreign equity capital, removal of controls and restrictions, rationalizing and simplifying the system of fiscal and administrative regulation. All these changes were directed towards creating an uninhibited climate for private sector so that private sector investment could get a big boost to modernize the economy and usher in rapid growth. Professor K. N.RAJ rightly sums up the focus of new economic policy:" There has been however a general agreement that a very distinctive feature of these policy changes taken as a whole is the greater scope for unfettered expansion they offer to the private sector, particularly in the corporate segment of manufacturing industry and the opportunities opened up to multinational enterprises."

Consequently, the New Economic Policy focussed its attention on dismantling the edifice of controls so as to remove to unnecessary hurdles in securing licenses, in adjusting output to administered prices and in denying industrial licensing to MRTP Companies.

ECONOMIC REFORMS – THE SECOND WAVE

Although economic reforms were introduced under Rajiv Gandhi regime, but they did not yield the desired result. The balance of trade deficit, instead of narrowing down, increased. Whereas the average deficit in trade balance during the Sixth Plan [1980-81 to 1984-85] was of the order of Rs. 5,935 crores, it jumped to Rs. 10,841 crores during the Seventh Plan [1985-86 to 1989-90]. Along with this, there was decline in the receipts on invisible account. As against total net receipts on invisibles during the Sixth Plan of the order of Rs. 19,072 crores, the net invisibles during the Seventh Plan declined to Rs. 15,891 crores. Consequently, the country was faced with a serious balance of payments crisis. It, therefore, approached the World Bank and the IMF to provide a huge loan of the order of about $7 billion to bail India out of the crisis. The World Bank-IMF while agreeing to provide assistance to India, insisted that it must put its economy back on rails. The Finance Minister, Dr. Manmohan Singh, gave a commitment to teh IMF Managing Director Michael Camdessus in his letter dated August 27, 1991 regarding the targets set by the Government of India pertaining to key macro-economic objectives and also initiating a number of policy measures to bring about structural readjustment of the economy.

ECONOMIC REFORMS UNDER P.V. NARASIMHA RAO GOVERNMENT -- THE SECOND WAVE

The new Congress (I) Government, soon after resumption of office on June 21, 1991 adopted a number for stabilisation measures that were designed to restore internal and external confidence. Monetary policy was tightened further through increase in interest rates, the exchange rate of the rupee was adjusted by 22 per cent and major simplification and liberalisation of trade policy was announced. The Government adopted as the centerpiece of the economic strategy a programme to bring about reduction in fiscal imbalance to be supported by reforms in economic policy that were essential to import a new element of dynamism to the growth process in the economy. "The thrust will be to increase the efficiency and international competitiveness of industrial production, to utilize foreign investment and technology to a much greater degree than in the past, to improve the performance and rationalize the scope of the public sector, and to reform and modernize the financial sector so that it can more efficiently serve the needs of the economy."

EFFECTS OF ECONOMIC LIBERALISATION

Economic liberalisation has created an environment conducive to an enterprise, investment and innovation with an anticipated revival of the economy. New Industrial policy has boosted India's efforts at accelerated industrialisation to improve international competitiveness and integrate with the global economy. Indian companies are attracting foreign portfolio investments or equity participation in new ventures and the government is committed to make foreign players feel at ease to invest directly and bring with it new technology and marketing skills. In this situation, it is but natural that MNCs are rising steeply and creating marketing and production alignments to leverage their strengths in Indian market through acquiring the existing concerns, franchise arrangements and formation of new organisations.

In this situation to compete with increasing MNCs, at macro-level, our captains of the industry are bound to actively modernise their production base diversify into related/unrelated fields or to go for collaboration arrangements. At micro-level, with increasing international alignments necessary for monopolistic competition at global level, our corporate leaders responsible for formulating and its implementing overall corporate strategies should first understand the changing global competitive environment. They should then explore the dimensions of alternative strategic responses tot eh changes in the environment. In this way they can establish the anchors for developing monopolistic position at global level as they have to 'swim with the sharks' in 21st century.

In 1991, there was an external account crisis and a near bank-ruptcy prevailed. To tide over the crisis **'Raonomics'** introduced several sweeping reforms in the areas of industrial policy, public sector, agriculture section, taxation, trade and exchange rate policies, foreign investment, banking sector and capital markets. Over the years, all these changes have shaken the system to gear up to meet new challenges of liberalisation and deregulation.

MAJOR POLICY REFORMS

The major policy reforms introduced in 1991-92 were as under:-

(a) Devaluation of Indian currency in July, 1991 to provide a substantial stimulus to exports.

(b) Introduction of freely tradeable Exim-scrips.

(c) The advance licensing system for exports was simplified so as to improve exporters access to imported inputs at duty-free rates.

(d) Export and Trading Houses and Star Trading Houses were permitted a larger range of imports. 51 percent foreign equity was also now allowed in Trading Houses.

(e) The MRTP Act was amended which enabled Indian firms to become large enough to compete effectively in global markets.

(f) Government clearance for the location of projects was dispensed with except in the case of 23 cities with a population of more than one million.

(g) Small scale enterprises were given the option to offer upto 24 percent of their shareholding to large scale and other industrial undertakings which provide them with greater access to capital and technology.

(h) The limit of foreign equity holdings was raised from 40 to 51 percent in a wide range of priority industries.

(i) Technology imports for priority industries are automatically approved for royalty payments upto 5 percent of domestic sales and 8 percent of export sales or for lump sum payment of Rs. 1 Crore.

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