Chapter -4 (Assignment-II)
Liberalization, Privatization and Globalization

Trade and investment reforms:

1-Removal of quantities restrictions on imports

2-Reduction of tariff rates

3-Removal of licensing procedures for imports

4-Removal of exports duties

Privatization:

Privatization refers to the removal of control over private sector and giving it freedom to take necessary decisions.

Privatization can be done in two ways:

1- By withdrawal of government from ownership and management of public sector companies
2- By selling of part of the equality of public sector undertakings (PSUs) to the private sector is known as **disinvestment.**

Positive impacts of privatization:

1- **Improve the efficiency of management**: Privatization will make the entrepreneur free to make quick decisions without interference by the government. It improves the working efficiency

2- **Diversification of production**: Private sector will function efficiently to satisfy the unlimited wants of consumers, it results diversification and expansion if production. It will also promote consumers sovereignty.
3- **Increase in foreign direct investment (FDI)**: Privatization leads to the inflow of FDI as foreign investors see the great opportunity of business potential.
4- **Financial discipline:** Privatization maintains financial discipline by regular supply of funds. There were undue delays in sanctioning of funds prior to 1991.

Negative impacts of privatization:

1- **Negligence of social interest**: Private sector functions mainly with the objective of profit optimization which may done at the cost of social welfare of the people.
2- **Leads to inflation**: AS privatization functions for the profit motive. When prices rise demand by these who cannot pay this price, would fall. It can also lead social inequality. E.g.

Siricilla Tragedy: In Andhra Pradesh 50 workers committed suicide due to privatization of power supply.

Globalization:

Globalization refers to the free interaction among all the countries of the world in various fields like trade, technology, loans, investment, outsourcing etc.

Policy measures undertaken the globalization:

1-Modification of tariffs: In conformity with new economic policy, custom duties and tariffs imposed on imports and exports have been gradually reduced.

2-**Increase in equity limit of foreign investment**: Equity limit of foreign capital was 40 percent. It now ranges between 51-100 percent. For this purpose exchange management act (FEMA) has been enforced.

3-**Partial convertibility**: To achieve the objective of globalization, partial convertibility of Indian rupee was allowed

4-**Withdrawal of quantitative restrictions**: Since 2001, the quantitative restrictions on all import items have been totally removed. This was in conformity with India's commitment to the WTO.

Positive impact of the LPG policies:

1-Check on the fiscal deficit: Fiscal deficit was serious threat to investment in the India economy. It was as high as 8.5% of GDP prior to 1991.Thanks to LPG policies that reduced the fiscal deficit around 5 percent of GDP.

2-**Check on inflation**: Going to a greater flow of goods and services in the economy, there has been a check on the rate of inflation.

3-**Flow of foreign private investment**: Private foreign investment has taken a quantum jump after the adoption of LPG policy.

4-**Incraese in foreign exchange reserves**: Depletion of foreign exchange reserves was one of the compelling reasons for the government to shift to LPG policies now there was substantial increase in foreign exchange reserves.

Negative impact of LPG policies:

1-Neglect of agriculture: LPG policies confined only to the industrial sector, it neglected the primary sector which was the important sources of GDP.

2-Urban concentration of growth: LPG policies have resulted in the concentration of growth process in urban areas. You will hardly find its trace in the rural areas of the country.

3-Econmic colonialism: India suffered nearly 200 years of colonialism during the British rule. Now, multinational companies are dominating the Indian economy, be might suffer a short of colonialism.

4-Cultural erosion: Globalization has also cost a cultural erosion in the Indian society. Economic prosperity has taken a lead over all other parameters of life which used to be the string holds of the Indian social culture.

World trade organization (WTO):

World trade organization was founded in 1995 as successor organization to the general agreement on trade and tariff (GATT). There are 164 member countries of WTO.

Functions of WTO:

1-It helps in providing greater market access to all member countries.

2-WTO agreements facilitate bilateral and multilateral trade by removing tariff and non-tariff barriers.

3-It aims at enlarging productions and trade of services to ensure optimum utilization of world resources.

Outsourcing:

It is an emerging business activity. As information technology is growing faster, outsourcing has become an important need of the present time in the international arena.

In outsourcing, a company hires regular service from external sources, mostly from other countries. These services used to be previously provided internally or from within the country.

The main services which are being outsourced to India by other countries are, voice-based business process (BPO), record keeping, accountancy, banking services , film editing , book transcription, clinical advice or even teaching.