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IMPLEMENTION OF LIBERALISATION, PRIVATISATION AND GLOBALISATION IN INDIA –A CRITICAL VIEW

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ABSTRACT

Liberalization, Privatization and Globalization (LPG) were introduced in India in 1991, at a crucial time when India started to have Balance of Payments (BOP) crisis, and other serious economic crisis inearly nineties. The country was into a serious economic crisis, the government was close to default on credit, and the foreign exchange reserves had been at its lowest. The introduction of LPG was not a structured outlay of the policies or a planned strategy to develop India or to take the nation to the next level. LPG was forced on India when the country needed the help of the international bodies to bail them out of the financial crisis. There has been huge concern over the readiness of the country and whether the policy measures were in place to benefit the country at large or is it the case of the powerful economies taking undue advantage of the lesser privileged countries at the time of the need. Also Globalization has generated significant opposition over concerns like increased social inequality, success of private sector and failure in deliverance of government policies measure and environmental degradation.

This paper tries to take a critical view on implementation of LPG and its success and down fall in the past 26 years.

Keywords: Liberalisation, Privatisation, Globalisation, Economic Crisis.

Introduction

In 1991 India embarked on major reforms to liberalize its economy after three decades of socialism and a fourth of creeping liberalization. So far in the past twenty five years, the outcome has been a commendable economic success. India has gone from being a poor, slow-growing country to the fastest-growing major economy in the world in 2016. The World Economic Outlook in 2016 reported that the two major powers United States and India are the two pillars of strength that are helping in holding up a sagging world economy. Once an object of pity, India has now become an object of envy among developing countries; it is often called as a potential superpower and is strongly backed by the United States for a seat on the UN Security Council.

But these successes have been accompanied by significant failures and weaknesses in policies and institutions. The past 26 years of liberalization has largely been a story of success private-sector and failure or downfall of government failure and the successful economic reform was tarnished by institutional erosion. Although old controls have been abolished, new ones have been replaced, so that the critics call it an era of neoliberalism or more appropriately could be called s neo-illiberalism.

The quality of government services delivered remains extremely poor and social indicators have improved very slowly. The provision of public goods like police, judiciary, general administration, basic health and education, and basic infrastructure has seriously lagged improvements in economic performance. Political appointees and government interference erode the independence and quality of institutions ranging from the courts and universities to health and cultural organizations. India's economic reforms have been highly successful in moving the country from low-income to middle-income status, despite little improvement in its institutions and quality of five main Government services. To sustain rapid growth and to become a high-income country, India will need major reforms to deepen liberalization and build high-quality institutions.

A BRIEF HISTORY OF THE INDIAN ECONOMY

It is difficult for youngsters born in mid or late nineties to and grasp and understand that until 1990, India was famous (or perhaps infamous) as the under developed, slow growing and poor economy in the world, seeking food aid and foreign aid from Rest of the World. It was constrained by a million controls, imposed in the name of socialism which was mainly introduced for the benefit of few politicians and higher echelons in the society. On attaining independence in 1947, Indian politicians were worried that imposing foreign rule would return in the guise of economic domination through trade and investment.

So India sought "economic independence" to reinforce political independence, and that took the form of aiming for economic sufficiency, along with planning economy. India's share of global trade steadily fell from 2.2 percent at the time of independence to 0.45 percent in 1985, and that was actually called as a policy triumph by Indian socialists. The public sector was supposed to gain the commanding heights of the economy. It was called an era of licence raj, as nothing could be manufactured without an industrial license or imported without an import license, and those licenses were difficult to get. India was perhaps the only country in the world where improving productivity (and hence exceeding licensed capacity) was a crime.

The underlying socialist theory was that the market could not be trusted to produce good social outcomes, so the government in its wisdom must determine where the country's scarce resources should be deployed and what exactly should be produced, in what location, and by whom. In other words, the people would be best served when they had no right to decide what to produce and no right to decide what to consume: that was all to be left to a benevolent government.
In its first three decades after independence in 1947, the Indian economy averaged just 3.5 percent GDP growth, which was mockingly called the "Hindu rate of growth.

Meanwhile, the population had continued to rise and doubled since independence in 1947, meaning that the number of poor people virtually doubled in this socialist era. However, the GDP growth rate improved to 5.5 percent in the 1980s due to some very modest liberalization initiatives plus a government spending spree. But the spending spree was unsustainable and left the state in the sorry state and empty foreign exchange reserves in 1991.

In 1999 P. V. Narasimha Rao became prime minister. Meanwhile, Deng Xiaoping had revolutionized China with market-friendly reforms. And so Indian politicians turned in the direction of the market towards free market economy. The then prime minister P.V. Narasimha insisted on a pragmatic approach, by pursuing a “middle path” and not a radical transformation. The Indian economy took two years to stabilize but then achieved record growth of 7.5 percent in the next three years 1994–97. When the reforms began, all opposition parties had slammed them as a sellout to the International Monetary Fund (IMF). But when the outcome was record GDP growth, the objections melted away in practice even if not in rhetoric. Every successive government that came to power continued down the path of economic liberalization, despite some steps backward.

The Asian financial crisis of 1997–99 dragged down India low, yet it proved a far more resilient than other Asian nations. Soon after came two droughts (in 2000 and 2002), the dot-com collapse and global recession of 2001, and the huge global uncertainty. The Indian economy sputtered in those difficult years, and average GDP growth slowed to 5.7 percent in 1997-2003. But then followed the global boom of 2003-08, lead by China, which lifted all boats across the world. India’s GDP growth soared, and it reached a peak of over 9 percent rise per year in the three years 2005–08.

The euphoria of those days has now dimmed. Many serious problems arose after 2010–11, such as widespread charges of mass corruption, which led to paralysis in decision making; a collapse of the public–private partnership model for infrastructure; huge bank losses; huge losses from state electricity boards giving massive subsidies and failing to check electricity theft; and major problems in land acquisition, environmental clearances, and other clearances, which led to delays that negatively impacted some capital-intensive projects. The economy slowed, and that plus the anticorruption public mood led to the crushing defeat of the Congress Party– led coalition in the 2014 election after a decade of mostly successful rule.

The new government led by Narendra Modi of the Bharatiya Janata Party has sought to tackle some of the worst problems, and growth has picked up to an estimated 7.5 percent in 2015–16. That growth rate is slower than before, yet China has slowed even more dramatically to 6.5 percent. So India has become the fastest-growing major economy in the world, an unexpected and notable feat, even if it owes more to the slowing of China than to its own acceleration.

Public anger over corruption and failed government services has risen, so the public mood in India today is far from triumphant. Although India's position in the world has been transformed beyond recognition in the past 26 years, much reform is still needed, above all reforms in governance, institutions, and the delivery of government services.

Meaning of L: Liberalization, P: Privatisation and G: Globalisation:

Definition of the term 'Liberalization' and "Economic Liberalisation."

The term "Liberalisation" stands for "the act of making less strict."

Liberalisation refers to relaxation of previous government restrictions usually in areas of social and economic policies. Thus, when government liberalises trade it means it has removed the tariff, and other restrictions on the how of goods and services between countries.

Liberalisation in economy stand for:

The process of making policies less constraining of economic activity and also reduction of tariff or removal of non tariff barriers.

Globalisation

Globalisation means integration the domestic economy with the world economy. It is a process which draws countries out of their insulation and makes them join rest of the world in its march towards a new world economic order.

It involves increasing interaction among national economic system, more integrated financial markets, economies of trade, higher factor mobility, free flow of technology and spread of knowledge throughout the world.

According to Deepak Nayyar, "Globalisation can be defined, simply as the expansion of economic activities across political boundaries of nation states. More importantly perhaps it refers economic interdependence between countries in the world economy."

THE MAIN SUCCESSES OF LPG OVER THE PAST 26 YEARS

Gross Domestic Product: The size of the economy can often give the best impression of the might of a country. GDP gives the total worth of the goods and services produced in a country in one particular year. India's GDP stood at Rs 5,86,212 crore in 1991. About 26 years later, it stands at Rs 1,35,76,086 crore, up 2216 percent. In dollar terms, India's GDP crossed the $2 trillion mark in 2015-16. Currently, the country is ranked ninth in the world in terms of nominal GDP. India is expected to become the second largest economy in the world by 2050.

Foreign Direct Investment: Before 1991, India's foreign investment was negligible. The first year of reform saw a total foreign investment of only $74 million. However, investments have steadily risen since then, except for occasional slow down between 1997- 2000 and 2008-2012 owing to the global economic slowdown. As of 31 March 2016, the country has received total FDI of $371 billion, since 1991. The year 2008 recorded the highest FDI inflow of $43.40 billion. The biggest spurt in inflow was between 2005 and 2006 an increase of 175.54%. As of March 2016, India had attracted $10.55 billion worth of FDI. In 2015, India received $63 billion (nearly Rs 4.19 lakh crore) and replaced China as the top FDI destination.

India's Foreign Exchange Reserve: It was India's disappointing state of forex reserves that forced the government to embrace and layout new economic reforms. Since then 26 years later, forex reserves are at a record high. In 1991, it stood at just $5.8 billion. As of 24 June, the country's forex reserves are at $360.8 billion. Usually, import coverage of 7-8 months is considered sufficient. The biggest jump in reserves was witnessed between 2007 and 2008 when the forex reserve treasury bulged 55% to hit $309.2 billion.

India's External Debt (in Billions): As the economy expanded so did the country's external debt as companies started borrowing from the overseas markets to fund their growth. In 1991, the country's external debt stood at $83.8 billion. The rise has been steady with the figure in December 2015 hitting $480.2 billion. Though the figure looks huge, as a percentage of GDP the external debt has declined. In 1991-92, external debt as a percentage of GDP stood at 38%. The corresponding figure in 2015 is just about 24%. Between 2007 and 2008, external debt rose by more than 30% which is the steepest rise in the last 26 years.

Foreign Institutional Investment (FII): Unlike FDI, FII investment is not for long term and is sensitive to domestic and international volatility. FII inflows and outflows may often reflect a nation's economic and political stability. In 1992-93, FII inflow stood at a meagre $4.2 million. By 1994-95, the figure had risen to $2.43 billion. However, there was a net outflow of $386 million for the first time in 1998-99. The reason for this may be the political instability and the Kargil War. Another major outflow was recorded in 2008-09 – $9.83 billion – during the global financial crisis. FII inflow rose to $45.69 billion in 2014-15 from $8.87 billion in 2013-14, a 414 percent spike in just one year. In 2015-16, however, there was a net FII outflow of $2.53 billion.

S&P BSE SENSEX: Though only a small fraction of the Indian population plays in the share market, the ups and downs in the Sensex reflect the prevalent economic and political scenario in the country. The 30-share index was lingering around the 1000-level in 1991 before crossing the 4,000 mark the next year. The Sensex reached the high point of 15,644 by the end of 2007-08, since then, the Sensex has risen steadily to reach 26,341.86 points by the end of FY 16.

Purchasing power parity (PPP): Generally gives a comprehensive idea on the standard of living and the cost of living in a particular country. When per capita income of Indians is calculated in terms of PPP, the standard of living has improved steadily. However, the cost of living has risen too. In 1991, per capita PPP was $1,173. In 2014, it rose nearly five-fold to $5,701. However, when compared with developed countries, India's standard of living as well as cost of living is quite low.

Contribution of Agricultural sector: The post-reform period shows the gradual decline in the agriculture sector's contribution to the Indian economy. India's traditional occupation, agriculture now contributes only about 15% to the GDP, down from 29 percent in 1991. The services sector has taken the lead role in propelling the economy at the global stage. The IT sector has been the torchbearer of the service sector in India. Currently, it contributes around 53 percent to the national economy. In the meanwhile, the industrial sector has undergone marginal growth in the last 26 years.

Electricity consumption is a proxy for growth. As a country prospers economically, its power consumption increases too. This has been the case with developed countries such as the US. Post-reforms, per-capita power consumption in India has increased each year. Cumulatively, there has been about 162 percent growth between 1990-91 and 2012-13 – from 291.8 KWh to 765 KWh.

The labour force in India currently stands at 49.7 crores. In 1991, it stood at 33.7 crores. More or less two-fifth of population is part of the labour force. The most important fact is that the decline in unemployment rate over the last 26 years is only marginal – from 4.3% in 1991 to 3.6% in 2014. The sectoral composition of labour has witnessed a notable change. The agriculture sector, which is considered India's backbone, now employs less than 50% of the labour force, while industrial and service sectors have marginally surged ahead.

INDIA'S MAIN FAILURES IN THE 26 YEARS OF LPG:

Neoliberalism or Neo-Illiberalism? The critics accuse India of going down the path of neoliberalism. The actual process could better be called neo-illiberalism. Although many old controls and licenses have indeed been abolished over the past 26 years, many new controls and bureaucratic hurdles have appeared, mostly in such areas as the environment, forests, tribal rights, and land and in new areas like retail, telecom, and Internet-related activities. Many state governments have failed to liberalize sufficiently. Hence, entrepreneurs complain bitterly of red tape and corruption. A survey conducted in January 2016 by the Center for Monitoring Indian Economy showed that projects worth Rs 10.7 trillion ($160 billion) were stuck for various reasons, up from Rs 10.5 trillion ($158 billion) in September 2015. The Heritage Foundation's Economic Freedom Index places India at just 123rd out of 178 countries. Of the foundation's five categories—free, mostly free, moderately free, mostly unfree, and repressed—India falls into the "mostly unfree" category

Poor Governance, Pathetic Delivery of Government Services: Markets cannot function without good governance. With almost no exceptions, the delivery of government services in India is pathetic, from the police and judiciary to education and health. The permanent government staff members have no accountability to the people they are supposed to serve, and so callousness, corruption, and waste are common. Politicians like a patron–client system in which they earn gratitude by helping constituents and sundry groups through the many controls and permits, rather than abolishing the controls and permits, which would level the playing field but also leave them less powerful. The judicial system is in a mess. Justice is supposed to be blind. In India, it is also lame. India holds the world record for legal case backlogs (31.5 million), which will take 320 years to clear, according to Andhra Pradesh high court judge V. V. Rao.

Politics are criminalized: In India, criminals take part in politics and often become cabinet ministers. That gives them huge clout and ensures that charges against them are not pursued. An analysis by the Association for Democratic Reforms looked at 541 of the 543 members of Parliament elected in 2014 and found 186 had criminal cases pending. In the earlier 2009 election, the figure was 158. Of the winners in 2014, 112 have been charged with serious offenses, such as murder, kidnapping, and crimes against women. Some of those charges may be false but not most. No party is clean—all have criminals aplenty, since those people provided money, muscle, and patronage networks that every party finds useful.

Lousy government services leads to lousy social indicators: The quality of the delivery of government services remains poor. The big improvements in private sector competitiveness are not even remotely replicated in government service competitiveness. India's social indicators remain dismal.

Slow Infrastructure development: Although there is lot of progress, almost all indicators score poorly if one looks at India's infrastructure particularly compared with countries like China. This is one of the single biggest constraints for the Nations growth. Meeting the energy requirements for growth of this magnitude in a sustainable manner presents a major challenge. It is not surprising that the index of infrastructure across states is highly correlated with per capita income and level of poverty. In the post-reform period, we have much greater dependence on private investment through different forms of public-private partnerships (PPPs) than was the case when the reforms started. PPPs have not met the expectations. Ahluwalia (2012) says " policy is being framed such that PPPs should be a means of bringing private money into public projects and not siphoning public money into private projects!". May be a different approach is needed on PPPs. Moreover clearances on environment and land acquisition should be faster so that investments can be improved. Similarly ease of doing business in India has to be undertaken.

Failure in increasing labour intensive manufacturing: Rise in manufacturing employment is need of the hour. Share of manufacturing in total employment has been almost stagnant at 11 to 12 per cent for a long time. It increased marginally to 13 per cent in 2011-12. In 2010, India accounts for 1.4% of the world exports of manufactures while the share of China is a whopping 15%. The reforms since 1991 have not been comprehensive enough to remove the bias towards capital and skill intensive industries. Also there are distortions in input markets like land and labour.

Not taking advantage of demographic dividend. It is known that with demographic dividend, there will be large numbers joining labour force. Labour force in India is expected to increase by 32 per cent while it will decline by nearly 5.0 per cent in China over the next 20 years. India is supposed to have surplus of 56 million while rest of the world will have shortage of 47 million working population. There has been sluggish progress in education and skill levels of workers. Young population is an asset only if it is educated, skilled and finds productive employment. During the Twelfth Five Year Plan (2012–17), 50 million non-farm employment opportunities are proposed to be created and at least equivalent number of people would be provided skill certification. There are huge challenges in raising education and skills of workers and population. In India, education and skills of workers is low although it has been rising over time.

Slow social sector development: Although there have been achievements in social sector during the reform period, the progress has been very slow. India has success in growth but there is a failure in progress of social indicators. The country is not only behind china but the progress is slower than many of the Asian countries. It is known that India's rank of human development index (HDI) is lower compared to many other developing countries. Basically the argument is that compared to economic growth, reduction in inequality, hunger, malnutrition is much slower. Improvement in health and quality of education is slower. There is disconnect between economic growth and malnutrition.

Governance Failures: Reforms were expected to improve governance at various levels. However, there are new problems in governance and persistence of old problems including corruption. Apart from many achievements, the post-reform period also witnessed many scams in the financial and real sectors. These scams in the last 26 years could have been avoided with better governance. There has been a nexus between politicians, business people and bureaucracy. The interface between politics, economics and governance, and their combined effect on the functioning of our democracy, will largely determine India's future.

CONCLUSION:

To conclude the experience of 26 years of LPG reflects three major trends are. First, the vast majority of successes have been private-sector successes, whereas the vast majority of failures have been the failures by the government, mainly in service delivery. Secondly, wherever markets have become competitive and globalized, the outcomes have been excellent. But many areas remain unreformed, a few areas have been marked by backsliding, and those along with new forms of regulation are combining to create what can be called as neo-illiberalism. Third, the weak quality of Indian institutions is increasingly a problem, and without better institutions, India will be unable to sustain high growth The 26 years from Narasimha Rao to Narendra Modi have moved India from low income to middle-income status. To reach high-income status, India must become a much better governed country that opens markets much further, improves competitiveness, empowers citizens, vastly improves the quality of government services and all other institutions, jails political and business criminals quickly, and provides speedy redress for citizen grievances.

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