

Lpg essay

Business, Industries



Introduction Rajiv Gandhi's government initiated the policy of liberalization since mid-80s. The liberalization initiatives have been undertaken in India with a view to increase a production, improve quality and get access to market for products and service abroad. Radical liberalization or globalization measures have been brought in since July 1991 to make the Indian economy progressively market oriented and integrate it with the emerging global economy structure. These measures include reduction and rationalization of excise duty and customs duties, delicensing of several drug and pharmaceutical products, ready access to import of raw material and capital goods and so on. It has created an environment conducive to an enterprise, investment and innovation. Indian industries have started to attract foreign portfolio investment and equity participation in new ventures. The government is committed to make foreign players feel at ease to invest directly and bring with it new technology and marketing skills. There has been impressive growth in FDI inflows to India with the introduction of policy reforms. As compared to a near total concentration in manufacturing till 1991, the bulk of new inflow has come in the energy and service sector.

Liberalization The New Industrial Policy, 1991 A number of significant economic changes introduced by many a number of countries all the world over, the encouraging results of the liberalization measures introduced in 1980s by the Government of India, and the precarious economic situation that prevailed during the later part 80s have encouraged and forced the then Congress government, which came back to power at the center, under the leadership of Shri. P. V. Narasimha Rao—a non - Nehru family member, to take some bold measures to rejuvenate the economy and to accelerate the

pace of development. In this background, the Government of India announced its New Industrial Policy (NIP or IP) on July 24, 1991. The important objectives are: (a) to correct the distortions that may have crept in, and consolidate the strengths built on the gains already made, (b) to maintain sustained growth in the productivity and gainful employment, and (c) to attain international competitiveness. Therefore, the basic philosophy of the New IP, 1991 has been the continuity with change. Because, the new policy represents a renewed initiative towards consolidating the gains of national reconstruction at this crucial stage. But what is more important is the change (in continuity with change)–change in the attitude of the state towards the industrial society, change from centrally planned economy to market led economy, change from excessive government intervention to minimal intervention, change from nationalization to privatization, change from subsidization and cross-subsidization to gradual withdrawal of subsidy, etc. But these changes, which the government has introduced, represent a sharp departure from the earlier industrial policies. These changes pertain broadly to five areas viz., (a) Industrial licensing, (b) Public sector policy, (c) MRTP Act, 1969, (d) Foreign investment, and (e) Foreign technology agreements.

Industrial Licensing This is one of the areas in which substantial change has been made by the government. With a view to give effect to these changes, the government issued a notification [viz., Notification No. 477 (E)] on July 25, 1991 and this notification has exempted the industrial undertakings from the operation of the following Sections of Industries Development and Regulations Act, 1951 subject to the fulfillment of certain conditions.

a) Section 10 (which deals with registration of existing industrial

undertakings); b) Section 11 (which is concerned with the licensing for new industrial undertakings); and c) Section 13 (which is concerned with the licensing requirements for substantial expansion). Further, the second schedule appended to the notification cited above [viz., No. 477 (E)] lists the industries which are subject to mandatory industrial licensing. According to this notification, only 18 industries were subject to compulsory industrial licensing. Further, five more industries have been excluded from the list of industries which are subject to compulsory industrial licensing subsequently. That means, only 13 industries are now subject to compulsory industrial licensing. Public Sector Policy A large number of Public Sector Enterprises have failed to achieve at least a reasonable rate of success. Some of the factors which have contributed to this situation are over staffing and over managing, price and distributions controls, etc. Hence, the government, in its Industrial Policy, 1991, introduced the number of significant changes pertaining to the PSEs. Some of the important changes envisaged by the New Policy are summarized below. Prior to the announcement of New Industrial Policy, 1991, seventeen industries were reserved exclusively for the state for their future development. Further, with respect to another 12 industries, the state was to play an important role by taking initiative to establish new undertakings. Besides, the state had power to enter into any other area reserved for the private sector. However, the failure on the part of majority of PSEs has forced the government to review its earlier decision. Consequently, the government in its New Industrial Policy, 1991 has pruned the list of the industries reserved for the public sector to only 8. Further, the government has dereserved 2 more industries. As a result, only six industries

are now reserved for the public sector. They are: (a) Arms and ammunition and allied items of defence equipment, aircraft and warships, (b) Atomic energy, (c) Coal and lignite, (d) Mineral oils, (e) Minerals specified in the schedule to the Atomic Energy Order, 1953, and (f) Railway transport.

Hence, the focus of the public sector will be only on strategic and high tech industries and on basic infrastructural projects. However the objective of the New Industrial Policy has been to withdraw the public sector investment from the activities which can successfully be taken up by the private sector enterprises. The emphasis of PSEs in future will be on: (a) Basic and essential infrastructural facilities, (b) Mineral resources, (c) Crucial areas in the interest of the economy in the long run and where the private sector investment is inadequate, and (d) Defence equipment. With a view to mobilize the resources and to have a wider public participation, apart of governments share holdings in its enterprises will be offered to the mutual funds, financial institutions, employs of PSEs, and the general public. The New Industrial Policy also proposes selective privatization of PSEs. Further, the policy also proposes to close down the PSEs which have become sick and which cannot be rehabilitated. The sick PSEs which can be revived will be referred to Board for Industrial and Financial Reconstruction for the formulation of revival packages. The New Industrial Policy also aims at providing greater operational and managerial autonomy to the management of PSEs and making the managements accountable for the performance through a system called Memorandum of Understanding. MRTP Act, 1969 The New Industrial Policy, 1991 proposes to amend suitably the Monopolies and Restrictive Trade Practices Act, 1969. To remove the threshold limits of

assets in respect of MRTP companies and the dominant industrial undertakings. The important objectives of this were two in number. They are:

a) Prevention of concentration of economic power in the hands of few which will be detrimental to the common interest; and b) Regulation of monopolistic, restrictive and unfair trade practices which are pursued by the business community and which are prejudicial to the public interest. The New Policy proposes to renew the threshold limits of assets and therefore, to repeal the Provisions of MRTP Act, 1969 pertaining to the first objective. Hence, the MRTP Act now concerned only with the prohibition of monopolistic, restrictive and unfair trade practices followed by the industrial undertakings and the trading communities.

Foreign Investment As far as the direct foreign investment is concerned, the New Policy proposes to give automatic approval up to 51% of equity in the case of high priority industries and it has also identified 34 such industry groups. Further, the policy proposes to allow majority foreign equity holdings up to 51% of equity for the trading companies which are engaged in export activities. This is to enable the domestic companies an easy access to international markets. With a view to negotiate with the large international financial institutions and to approve the direct foreign investments proposals in selected areas, the New Policy proposes to constitute a special committee.

Foreign Technology Agreements The New Industrial Policy proposes to give automatic permission for foreign technology agreements in identified high priority industries. Further, it also proposes to allow other industries to import foreign technology subject to the fulfillment of certain conditions.

Conclusion The New Industrial Policy, 1991 certainly differs significantly from the earlier

philosophies, approaches, etc. of the government. For instance, prior to 1991, scope of public sector was expanded by reserving more number of industries for the public sector. But now, its scope has been reduced drastically by reducing the number of industries reserved for the public sector. Like this, a large number of changes can be noticed in the new policy. This process has been continuing even in post liberalization era. Adding to this, the government has taken a number of steps to give effect to its policy decisions included in the New Industrial Policy, 1991. Though the economy has been benefited significantly from these measures, the economy has not been able to reap the full benefits of the Economic Reform Package owing to the political instability, etc. Privatization Privatization of PSUs Majority of the industrial enterprises in the public sector have failed to achieve the desired result. Of course, a number of factors-internal and external, controllable and non- controllable are responsible for his precarious performance. A look at the history of public sector undertakings (PSUs) in the country reveals the continuous expansion in the role of PSUs. Consequently, a number of enterprises have been established and huge amount of borrowed capital has been employed by the state even in the non-core, non-strategic and not so essential area. Hence, the state has made a number of changes in its New Industrial Policy announced on July 24, 1991. Introduction In the sixties and seventies, the public sector policy has been largely guided by Industrial Policy Resolution, 1956 which gave the public sector a strategic role in the economy. During the last four decades, massive investments have been made to build a public sector which has a commanding role in the economy. Today, many key sector of the economy are dominated by the mature public

sector enterprises that have successfully expanded the production. In the early post-Independence years, there was virtual consensus about the need for the government intervention in economic activities. Pandit Jawaharlal Nehru described the public sector as Temples of Modern India. At that time, virtually neither questioned the strategy nor raised any doubts about its implementation. The number of central public sector enterprises increased from 5 in the year 1951 to 240 by the end of 1995 and investments in public sector undertakings (PSUs) increased from Rs29 crore in 1951 to Rs. 1, 72, 438 crore by the end of 1995. They contributed nearly one third of our exports. They made significant contribution to import substitution. Government undertakings account for more than 70% of the work force employed in the organized sector. They have greatly reduced the imbalanced of regional development and have laid strong base for the rapid development of the country. Some of the PSUs have earned a reputation par excellence at the international level. Some giant public sector units (e. g., Indian Oil Corporation, Steel Authority of India, Oil and Natural Gas Commission, Hindustan Petroleum Corporation Ltd., Coal India Ltd and Bharat Petroleum Corporation Ltd) figure in Fortune International's large companies. Further, the public sector accounts for one-fourth of the country's GDP. There are two million employees in government undertakings and the average emoluments per annum amount to more than Rs. 50, 000 each. Besides paying higher salaries, public enterprises assure job security, good working condition, attractive incentive scheme, participative management, higher degree of safety, adequate facilities, etc. Meaning of Privatisation The revolution of privatization started in 1980 and spread to

many parts of the world. Several countries are privatizing their public sector enterprises. India is no exception to it. Privatization was meant to improve the performance of public enterprises. Privatization techniques have been tried in countries like Great Britain, China, US, Turkey, Brazil, Mexico, Japan, etc. Privatization, in the narrow sense, means transfer of ownership, or sale of public enterprises. However, privatization has been used in different ways as detailed below:

1. Liberalization Approach: Privatization may be used in the sense of liberalization having fewer controls and regulation by the state in economic activities. This also means slowing of new controls and regulations and also dismantling of the existing controls and regulations.
2. Relative Share Enlargement Approach: Privatization may relate to enlargement of the share of private enterprises in the production of goods and services in the economy. This means that faster economic expansion of goods and services produced by private sector and slowing down of production of goods and services in the public sector.
3. Association of Private Sector Management Approach: This approach suggests utilizing the services of managerial personnel or executives of private sector enterprises for the conduct and management of PSUs.
4. Transfer of Minority Equity Ownership Approach: Privatization may be defined as the transfer of minority equity ownership of public enterprises to private individuals and institutions so that the ultimate control continues to remain with the state.
5. Transfer of Complete Ownership Approach: Privatization is also used in the sense of sale of all the shares to the private parties so that the public enterprises are converted into private enterprises. In India, privatization is taking place by adopting two common methods viz., (a) Having fewer controls and

regulations by the state in economic activities, and (b) Transferring ownership of state equity in PSUs to private individuals and institutions.

Benefits of Privatization It is expected that privatization will ensure the following benefits: 1. Increasing overall efficiency; 2. Improvement in the quality of management and decision making; 3. No government financial backing, and therefore, capital market will compel these enterprises to be more efficient; 4. Substantial reduction in government's budgetary support resulting in reduction in budgetary deficit; 5. Recovery of government fund which could more productively be used in development activities; 6.

Reduction in political and bureaucratic interferences; Better industrial relations management; etc. **Shortcomings** Though the PSUs have contributed heavily to develop the industrial base of the country, they continue, even today, to suffer from a number of shortcomings which are identified below very briefly. 1. A sizable number of PSUs have been incurring and reporting losses on a continual basis. Consequently, a large number of PSUs have already been referred of BIFR; 2. Multiplicity of authorities to whom the PSUs are accountable; 3. Delay in implementation of projects leading to cost escalation and other consequences; 4. Ineffective and widespread inefficiency on management; 5. Many PSUs are operating without the leader (i. e., chief executive or chairman); 6. With a view to provide opportunities for more and more unemployed youths, more number of people, than required, were recruited and therefore, many PSUs are over-staffed resulting in lower labour productivity, bad industrial relations, etc.; 7. un-remunerative pricing policy; and 8. A number of sick companies (40 companies) which were in the private sector was taken over by public sector mainly to protect

the employees. These sick units are causing a big drain on the resources of the state; etc. Methods of Privatization There are four important modes of privatization. They are: a) Franchising, (b) Contracting, (c) Leasing, and (d) Disinvestment. In India, disinvestment of government share of equity in PSUs is predominant. It started in 1992 immediately after the New Economic Policy in a phased manner. The main criticism of disinvestment of shares of PSUs in India is that it has been partial and half-hearted. There seems to be no plans to disinvest completely. The government still would like to keep a dominant control. 39 companies have been proposed for disinvestment till 1995-96. All the companies proposed for disinvestment are central PSUs. No state level PSU has been proposed for disinvestment. It could only disinvest 1% to 35% shares of PSUs on an average. It is also observed that the shares of efficient and profit-making companies are disinvested more than the companies which are potentially sick or sick companies. The disinvestment percentage is also not much in loss-making and inefficient units, thereby defeating the purpose. The Finance Ministry has also explained that the government is consciously not off-loading larger chunks of its holding. The Rangarajan Committee has suggested that government holding in public sector undertaking must be less than 50%. But partial disinvestment will be of no avail to change the culture in the public sector undertaking. Future Plans of Government The following are the future plans of government: a) Strengthening strategic units, b) Privatizing non-strategic units by (1) Gradual disinvestment, and (2) Strategic sale, and c) Devising suitable rehabilitation package for weak units. Conclusion The privatization process launched with all seriousness after the announcement of New Industrial

Policy, 1991 was a failure. The state must accept this and take necessary steps either to privatize or to improve the efficiency and performance of PSUs. GLOBALISATION Introduction: The expansion of economic activities across political boundaries of nation states. More important, perhaps, it refers to a process of increasing economic integrated and growing economic interdependence between countries in the world economy. It is associated not only with an increasing cross- border movement of goods, services, capital technology information and people but also with an organization of economic activities which straddles national boundaries. This process is driven by the lure of profit and threat of competition in the market. The term Globalization as such denotes adjustment of national economy with that of the world economy. It is conversion of a national market into international mobility of factors of production. In others words, it may be described as the integration of national economy with that of global economy. An important attribute of Globalization is the increasing degree of openness, which has three dimensions, i. e.; international trade, international investment and international finance. According to World Development Report, Globalization reflects the progressive integration of world's economies. The manifestation of production includes spatial reorganization of production the interpenetration of industries across borders, the spread of financial markets, and the diffusion of identical consumer goods to distant countries and massive transfer of population across national frontiers. Globalization is a process of reaffirmation of faith in the markets, retaining the character of independence of a country. Here, the country follows a pragmatic policy with a shift in decision making from government to business. The market forces

and the laws of economics will have greater importance than the political ideology. To make a country a successful partner in Globalization, the government must play a complimentary role. Factors contributing to Globalization: The important factors that contribute to Globalization are: (a) Technological Advances In communication: Technological advances in communication have made it possible to know in an instant what is happening in different parts of the world. The flow of information and ideas, boosted greatly by the Internet, can enable developing countries to learn more rapidly from each other and from industrial countries. (b) Improvements In Transportation And Technology: Improvements in transportation networks and technology are reducing the costs of shipping goods by water, ground and air. This can facilitate the movements of goods. Technological improvements can enable developing countries to leap stages in the development process that rely on inefficient uses of national resources. (c) Other Factors: Rising educational levels, technological innovations that allow ideas to circulate, and the economic failures of most centrally planned economies have also contributed to Globalization. Trends in Globalization: The important trends in Globalization are the following: International Trade: Trade in goods and services has grown twice as fast as global GDP in the 1990's and the share attributable to developing countries has risen from 23 to 29 percent. There is a compositional shift in trade, which has created a new pattern in the international exchange of goods, services, and ideas. Trade in components is one part of that new pattern. Advances in information technology helps to link firms from developing countries into global production networks. The tremendous growth of trade

in services and, more recently, of electronic commerce is also a part of the new trade pattern. (b) International Financial Flows: There has been increase in international capital flows of developing countries. However, the financial crisis of 1977-99 have put the growing interdependencies among countries in the spotlight and led to intense scrutiny. Such flows are started to rise again. The financial performance of emerging markets in the 1990s made capital account liberalization an attractive option for developing countries. Many developing countries have begun to loosen controls on inflows and outflows of capital. The East Asian meltdown has enhanced the attractiveness of long-term capital investment. Countries have started to recognize that foreign direct investment brings with it not only capital but also technology market access and organizational skills. An analysis of the period 1996-97 shows that foreign direct investment was less volatile than the commercial bank loans and foreign portfolio flows. (c) International Migration: Along with goods, services, and investment, people are crossing borders in large numbers. According to World Development Report 1999-2000, each year between 2 million and 3 million people emigrate, with majority of them going to just 4 countries: the United States, Germany, Canada and Australia. The market for highly skilled workers will become even more globally integrated in the coming decades. At the end of the 20th century Globalization has already demonstrated that economic decisions, wherever they are made in the world, must take international factors into account. There is acceleration of goods, services, ideas and capital across nation borders. Advantages of Globalization: (a) Promise of Increase Productivity And Higher Living Standards: Globalization brings in new

opportunities such as access to markets and technology transfer. These opportunities hold out the promise of increased productivity and higher living standards. (b) Increase In Trade In Goods And Services: There is tremendous growth in trade in goods and services. “ Trade in goods and services has grown twice as fast as global GDP in the 1990s and the share attributable to developing countries has climbed from 23 to 29 percent”. Increased international competition in services will lead to reduction in prices and improvements in quality. This will increase the competitiveness of downstream industries. Both industrial and development economics will gain by opening their markets. (c) Provide New Opportunities For Growth: For developing countries, trade is the primary vehicle for realizing the benefits of Globalization. Imports bring additional competition and variety to domestic markets, which benefit consumers. Exports, on the other hand, enlarge foreign markets and benefit business. Further trade exposes domestic firms to the best practices of foreign firms and encourages greater efficiency. Trade gives firms access to improved capital inputs such as machine tools, which boosts productivity. Trade encourages the redistribution of labour and capital too relatively to more productive sectors. It has contributed to the ongoing shift of some manufacturing and services activities from industrial to developing countries, providing new opportunities for growth. (d) Globalization of Financial Markets: Globalization of finance markets affects development because finance plays an important role in economic growth and industrialization. Financial Globalization affects growth in two ways. First, it increases the global supply of capital. Second, it promotes domestic financial development and hence, improves allocative efficiency, creates new

financial instruments, and raises the quality of banking services. (e) Increased Flow Of foreign Market Capital: Globalization leads to increased flows of capital across countries. Flows of foreign capital offer substantial economic gains to all parties. Foreign investors diversify their risks outside their home market and gain access to profitable opportunities through out the world. Economies receiving inflows raise the level of investment. When there is foreign investment it is generally accompanied by management expertise, training programs and important linkages to suppliers and international markets. (f) Impact on Poverty: The fast growth and overall development resulting from liberalization, increased flow of trade and capital could have a major impact on poverty. It is likely to reduce the number of people living in absolute poverty. (g) Increase The Level Of Interdependence And Competitiveness: Globalization is supposed to accelerate and increase the level of interdependence and competitiveness among nation. It is a change from plan to market. As a consequence, markets for merchandise trade are expanding, more and more service are being traded internationally, and capital is flowing in quicker and increasingly diverse ways across countries and regions. There is increasing integration of countries into World markets for goods, services and capital. In short, Globalization widens and intensifies international linkages in trade and finance. (h) Induce Domestic Firms To Improve Technology: The better technology brought in by the MNCs may induce or provoke the domestic firms to absorb similar technology. This may improve their competitiveness and expansion. Disadvantages of Globalization: The universal acceptance of the market economy and the Globalization led by private enterprises tend to have some harmful effects on

the economy of developing countries. They are discussed below:

Takeover of National Firms: There are a large numbers of cases of takeover of national firms by foreign firms. In some cases, the domestic firms had to handover the majority of equity to foreign partners of joint ventures due to their inability to bring in additional capital.

Ruin of Traditional Crafts And Industries: Globalization has lead to replacement of traditional and indigenous products by modern products. This has resulted in the ruin of traditional crafts and industries and the livelihood of the people depended on these sectors.

Brings Instability: Globalization sometimes brings instability and unwelcome change in the economy. It exposes workers to competition from imports, which can threaten their jobs. The inflow of foreign capital into the country through Globalization may undermine banks.

(d) Widens The Disparity: Globalization will widen the disparity between one who are associated with market and one who are not. With the expansion of trade and foreign investment, the gaps among the developing countries will widen . it has brought in increased income inequality in many industrial countries . it is argued that the developing countries and the poor people are not in a position of achieving benefits from Globalization. The only beneficiaries of it are the developed countries and the MNCs. [pic]

Growth rate of India's real GDP per capita [pic]

Per Capita GDP of South Asian Economies. [pic]

Estimates of the Per Capita Income of India.

CONCLUSION: Economic liberalization has increased the responsibility and role of the private sector. At the same time, it has reduced the control of the government on economy affairs. It is expected that the reforms would liberalize the Indian economy enough to create a conducive environment for

rapid economic development. The Ninth Five Year Plan, therefore, rightly observed, “ The conditions that exist today, demand a decisive break from the past. The government has taken on itself too many responsibilities with the result that it not only encouraged a dependency syndrome among our people, but also imposed severe strains on financial and administrative capabilities of the government. Private initiative whether individual, collective or community-based forms the essence of the development strategy articulated in the plan. The process of reforms according to many economists and social scientists is not fast enough to achieve the goals. Jeffrey Sachs, director of Harvard University’s center for international development and a noted economist, pointed out that the reform process in India had a long way to go. He feels that without a focus on the “ twin pillars” of social and economic strategies, the future would be bleak for India, especially in the context of competition all around. Liberalization process is on the slow track. Government is expected to reduce and finally give up its involvement in economic matters and play a major role in providing the required socio-economic infrastructure. The government, however, is reluctant to give up its role of owning and controlling economic activities. At the same time its inability to spend for providing minimum health and education services. It is eager to spend on higher education without spending enough on primary and secondary education. It has failed in providing a corruption free administration, an essential precondition for increasing competitiveness. Success of the economic reforms depends upon the commitment of all concerned — people, political parties, bureaucracy, and government — to the socio economic progress of the country.