JS PG COLLEGE, SIKANDRABAD

Socio-economic implications of Liberalisation

There have been revolutionary change in Indian Economy since the espousal of new economic strategy in 1991. This had great impacts on all areas of life in India. When a nation becomes liberalized, the economic effects can be intense for the country and for investors. Liberalization is defined as laws or rules being liberalized, or relaxed, by a government. Economic liberalization is generally described as the relaxing of government regulations in a country to allow for private sector companies to operate business transactions with fewer restrictions. With reference to developing countries, this term denotes to opening of their economic borders to multinationals and foreign investment. Many economist explained that economic liberalization is “opening up” to the rest of the world with regards to trade, regulations, taxation and other areas that generally affect business in the country.

Investors face problems to enter in emerging market countries when there are lots of barriers. These barriers can include tax laws, foreign investment restrictions, legal issues and accounting regulations that can make it difficult or impossible to gain access to the nation. The economic liberalization process begins by relaxing these obstacles and relinquishing some control over the direction of the economy to the private sector. This often involves some form of deregulation and a privatization of corporations.

Major goals of economic liberalization are the free flow of capital between countries and the effectual allocation of resources and competitive advantages. This is generally done by decreasing protectionist strategies such as tariffs, trade laws and other trade barriers. One of the main effects of this improved flow of capital into the country is that it makes it inexpensive for companies to access capital from investors. A lower cost of capital enables companies to undertake lucrative projects that they may not have been able to with a higher cost of capital pre-liberalization, leading to higher growth rates.

Stock Market Performance: Another factor is stock market performance. Generally, when a country relaxes laws, taxes, the stock market values also rise. Stock Markets are platforms on which Corporate Securities can be traded in real time. It offers mechanisms for continuous price discovery, choices for investors to exit from or enter into investment any time. These are strong base of free markets these days and there is vigorous trade going all over the world on stock exchanges. Their Importance can be assessed from the fact that, behaviour of stock markets of a country is strongest indicator of growth and future prospects of an economy. These markets have thrown open range of associated services such as Investment Banking, Asset Management, Underwriting services, Hedging advice etc. These collectively employ lakhs of people all over India. Similarly there are commodities market which provides avenues for investment and sale of various eligible commodities. Fund managers and investors are always on the lookout for new prospects for profit, and so a whole country that becomes available to be invested in will tend to cause a surge of capital to flow in. The situation is similar in nature to the anticipation and flow of money into an initial public offering (IPO). A private company that was formerly unavailable to an investor that suddenly becomes available typically causes a similar valuation and cash flow pattern. However, like an initial public offering, the initial eagerness also eventually dies down and returns become more normal and more in line with basics.

Political Risks Reduced: Liberalization policies in country lessens the political risks to investors. The government can attract more foreign investment through liberalization in economic policies. These are areas that support and foster a readiness to do business in the country such as a strong legal foundation to settle disputes, fair and enforceable contract laws, property laws, and others that allow businesses and investors to operate with confidence. Also, government administration is a common target area to be streamlined and improved in the liberalization process. All these modifications can reduce the political risks for depositors.

Diversification for Investors: In liberalized economy, Investors gets benefit by being able to invest a portion of their portfolio into a diversifying asset class. Commonly, the correlation between developed countries such as the United States and undeveloped or emergent countries is comparatively low. Although the general risk of the developing country by itself may be higher than average, adding a low correlation asset to your portfolio can reduce your portfolio's overall risk profile. However, a discrepancy should be made that although the correlation may be low, when a country becomes liberalized, the relationship may actually rise over time. This happens because the country becomes more incorporated with other parts of the world and has become more sensitive to events that happen outside the country. A high level of integration can also lead to increased contagion risk which is the risk that crunches that occur in different countries cause crises in the domestic country.

With the advent of Information Technology in contemporary period, globalization process increased and it made possible transfer of real time human labour across nations, without transfer humans themselves. Additionally, it removed all boundaries which hinder free flow of information. It has many benefits to investors such as sharing, nurturing and development of knowledge in societies which earlier had access only to substandard or non-updated information. As always package is coupled with some grim realities too. All over the world, Governments has lost their capacity to control and ward of against malevolent, false, sensitive information and content. Rise of Islamic State establishes that information technology revolution has helped global Terrorism. Furthermore, explicit content is freely available on web, to which immature children have unhampered access.

Industrial Growth Rate: Liberalization is imperative for the growth of Indian economy. Barring few years, industrial growth rate has not been so much inspiring. Share of Industry still remains stagnantly low at 25%. It is discouraging that India has transitioned to be a service led economy, directly from an agrarian one. One compensation of this is end of policy of imports substitution which derived industrial growth up to 1990. Foreign companies got free access to Indian markets and made domestic products uncompetitive. They perceptibly had better access to technology and superior economies of scale.

India's status also trailed in the arena of Research and innovation. Import substitution required certain degree of investment and efforts in domestic production. It was done even when imports were inexpensive. This resulted in good and better capacity building up to that time. This was combined with constant technology denial by west, which further pushed government to spend on R&D. Technology Denial ended with liberalization and globalization. Till that time Indian Industry was better and modern than that of China. Currently, China has exceeded India by huge margin in case of both Industry and novelty.

Impact on Small Scale in India: Impact of small scale is evaluated from the beginning of colonization in 18th century. Colonization can be considered as 1st movement of globalization. In pre colonization period, India's textiles and handicraft was popular across the globe and was mainstay of Indian economy. With the initiation of industrial revolution along with foreign rule in India, Indian economy underwent major setback and much of its home-grown small scale cottage Industry was ruined. After independence, Indian government made many efforts to recuperate small scale sector by reserving items exclusively for it to manufacture. With liberalization, list of reserved items was substantially curtailed and many new sectors were thrown open to big companies.

Small scale industry exists and still remains strength of Indian Economy. It contributes to major portion of exports and private sector employment. Results are mixed, many former Small scale industries got bigger and better. But overall value addition, product innovation and technology adoption remains miserable and they exist only on back of government support. Their products are challenged by cheaper imports from China.

Impact on Agriculture: In the area of agriculture cropping patterns has undergone a huge modification, but impact of liberalization cannot be properly measured. It is observed that there are still all pervasive government controls and interventions starting from production to distribution.

Global agricultural economy is highly biased. It is due to imbalance in economic and political power in hands of farmers of developed and developing countries. In developed countries, commercial and capitalistic agriculture is in place which is owned by influential Agri corporations. They easily influence policies of WTO and extract a better deal for themselves at cost of farmers of developing world. Farming in developing world is subsistence and supports majority of poor people. With the process of globalization, there has been high fluctuation in commodity prices which put them in massive risk. This is a fact for cash crops like Cotton and Sugarcane. Recent crunches in both crops indicate towards this decisively.

Impact on Services Sector: In service sector, globalization has changed the scene of developing countries and misery for developed ones. Due to historic economic inequality between two groups, human resources have been much cheaper in developing economies. This was further aided by information technology revolution and this all culminated in migration of numerous jobs from developed countries to developing countries.

Information technology industry: Currently, Software, BPO, KPO, LPO industry are prospering in India and it has helped India to absorb a big mass of demographic dividend, which otherwise could have wasted. Best part is that export of services result in export of high value. There is almost no material exported which consume some natural resource. Only thing exported is labour of Professionals, which does not reduce, instead grows with time. Now India is better positioned to become actually Knowledge Economy. Exports of these services generate huge revenue for India’s foreign Exchange.

Banking: In banking sector, liberal policies have great impact in Indian economy. Since improvements, there have been three rounds of License Grants for private banks. Private Banks such as ICICI, HDFC, Yes Bank and also foreign banks, raised standards of Indian Banking Industry. Now there is tough competition in the banking industry, and public sector banks are more responsive to customers. It is well understood that information technology is bringing banking revolution. New government schemes like Pradhan Mantri Jan dhanYojana aims to achieve their targets by using Adhaar Card. Public Sector Banks still remain major lender in the country. Similarly, Insurance Industry provides array of products such as Unit Linked Insurance plans, Travel Insurance etc. But, in India life Insurance business is still decisively in hands of Life Insurance Corporation of India.

Telecom Sector: Usually, Telecom sector was a government owned domination and therefore service was not very efficient. But after reforming polices, private telecom sector reached zenith of success. Indian telecom companies are progressing at global scale. However, corruption and rent seeking disfigured growth and outlook of this sector. Entry of modern Direct to Home services saw enhancements in quality of Television services on one hand and loss of livelihood for numerous local cable operators. Education and Health Sector: It is a fact that food (Agriculture), Health and education (and to lesser extent banking) are among basic requirements, which every human being deserves and cannot do without. Unfortunately, in developing countries, there is market failure in all these sectors and majority of people cannot afford beyond a certain limit. Concept of free markets, globalization, and liberalization fails despondently. Free markets provide goods and services to people who can afford paying for them, not to those who deserve and need these.

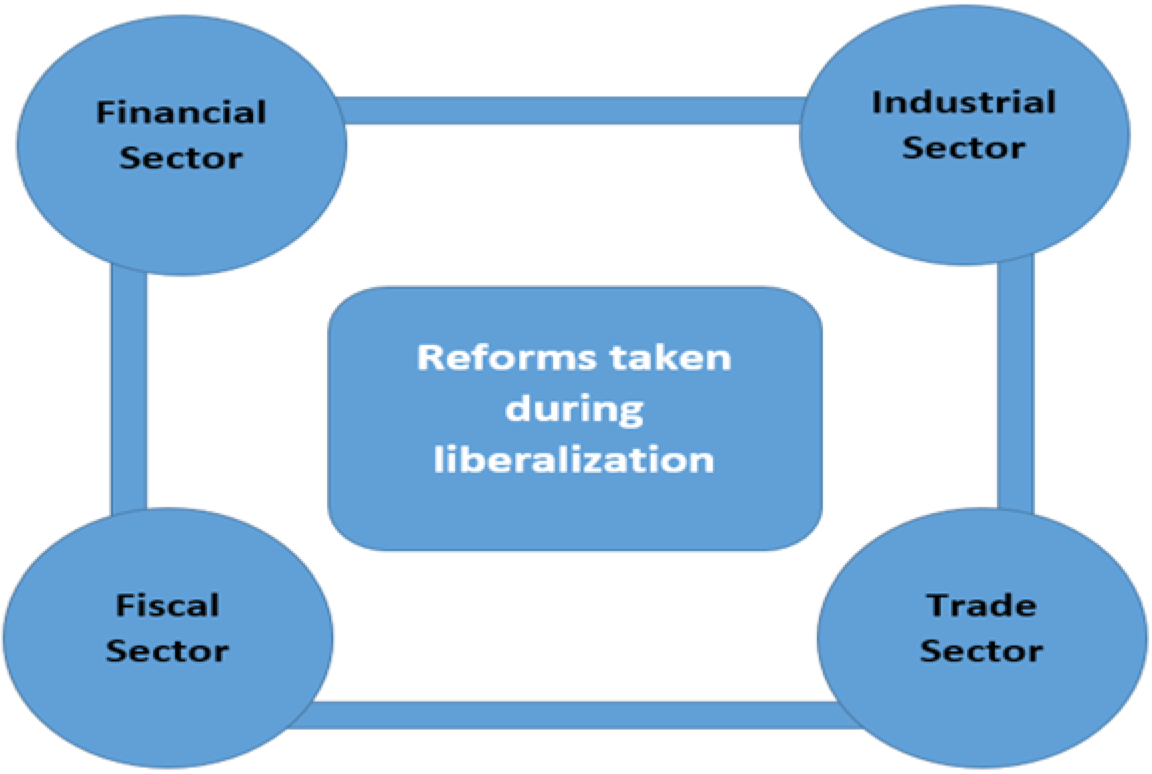
If experts evaluates these sectors from the perspective of free markets, some progress is visible. There has been high level education available in India and deregulation has resulted in growing of private engineering and medical colleges. But in reality, this had far reaching upsetting effect on society. These new colleges accommodate only small proportion of candidates at very high costs. In recent times, an Independent organization 'Transparency International' came out with report claiming that India's medical system is most corrupt in the world. High fees of education forces many aspirants to take educational loans from banks. After qualifying job market is unable to absorb majority of them. Practice turns out to be option of last resort. Now to make a decent living and to pay back the loans person is attracted by dishonesty. Subsequently, when many similar cases are put together, corrupt system is developed.

It is observed that after deregulation and liberalization, government along with other sectors, pulled its hand from social sectors too. In Public Sector less than mediocre to mediocre options are available. This leaves huge proportion of hopeful students and expecting parents.

It is well recognized that liberalization has major impact on the Indian economy and made it a huge consumer market. Currently, most of the economic changes in the country are based on the demand supply cycle and other economic factors. Today, India has made good status in economy in terms of market exchange rate and 4th largest in terms of the purchasing power parity. Economic liberalization is generally thought of as a useful and necessary process for developing nations. The fundamental goal is to have clear capital flowing into and out of the country in order to increase growth and efficiencies within the domestic country. The effects following liberalization are what should interest investors as it can provide new opportunities for diversification and profit.

Changes in Industrial Policies and their effect on Industrial Growth:

Industrial policy is described as a statement which explains the role of government in industrial development. The place of the public and private sectors in industrialisation of the country. The relative role of large and small industries. The role of foreign capital etc. Concisely, it is a statement of objectives to be realised in the area of industrial development and the measures to be adopted towards achieving these objectives. The industrial policy formally designates the spheres of activity of the public and the private sectors. It lays down rules and procedures that would govern the growth and pattern of industrial activity.



The major objectives of industrial policy are as under:

1. Rapid Industrial Development: The objective of the industrial policy of the Government of India is to augment industrial development. It seeks to create a positive investment climate for the private sector as well as mobilise resources for the investment in public sector. In its way the government seeks to promote rapid industrial development in the country.

2. Balanced industrial Structure: The industrial policy is intended to correct the predominant lopsided industrial structure. The industrial policy had to be framed in such a manner that these imbalances in the industrial structure are corrected. Thus by laying emphasis on heavy industries and development of capital goods sector, industrial policy seeks to bring a balance in industrial structure.

3. Prevention of Concentration of Economic Power: The industrial policy offers framework of rules, regulations and reservation of spheres of activity for the public and the private sectors. This is aimed at reducing the monopolistic tendencies and preventing concentration of economic power in the hands of a few big industrial houses.

4. Balanced Regional Growth: Industrial policy has an objective to check regional imbalances in industrial development. It is well recognized that some regions in the country are industrially quite advanced such as Maharashtra and Gujarat while others are industrially backward, like Bihar, Orissa. It is the duty of industrial policy to work out programmes and policies which lead to industrial development or industrial growth.