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Impact of Liberlisation in Rescent Years in India

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Background

The development of Indian economy was being strategically planned till 1980s, wherein import substitution was the basis, titling capital goods industries to have initial investments followed by chemical and durable consumer goods. The Industrial Development Regulation Act 1951 controlled comprehensively the dynamics of investments through licenses especially foreign exchange controls. In 1985, an effort was made by the Rajiv Gandhi administration, to rejuvenate industrial sector, through reforms altogether called as New Economic Plan, thereby removing requirement of license by incumbent firms and eased their entry. What is more, many classes of firms, for instance, those located in “underprivileged” areas, have a barest-minimum assets or which were “modernising”. The monopoly houses were given relaxation, if their expansion listed as “priority industries”. These initiatives lacked efficacy to encourage entry of incumbent firms, whose freedom to expand soared up. The probability of small sized incumbent firms gaining benefits, being unrestrained, was more than the other larger firms.

The second phase was more profound including reforms like New Industrial policy 1991, wherein rules of investment licensing were lifted. Monopoly houses could easily expand and they were open to compete with reserved public sector. Trade tariffs plummeted and foreign direct investment were provided with simplified procedures. 340 percent, the maximum tariff on import dwindled to two fifths. The worthwhile drive of 1991 reforms was to let incumbent firms to experience both domestic and international competition, definitely paving way to increase in rivalry afterwards. The resourceful larger firms, having wide range of investments, were Competitively advantageous in these fiercer competition,

Arguably, reforms in the mid-1980s were limited in scope and lacks clear roadmap, whilst those in 1990s were more systemic and systematic. In Pre liberalization phase, from independence till the mid-Eighties, the economic planning was mainly based on a centrally operated market and under government control wholly. There were not any foreign investments coming and country lacked well established consumer market. This platitude the Indian economic condition, for instance living standard did not rise. In government tenure of Rajiv Gandhi, efforts were made to increase exports that is liberalisation policies were implemented but did not identified with much support. The imports, hence, exceeded exports and resulted into problems in Balance of Payment. What exacerbated the situation was the fall of the Soviet Union, which was used to be major business market of India. At this stage, the immediate economic reform was inevitable. There was in fact, China had previously adopted ‘Open Door Policy’ through which it liberalized its economy, pursuing export led growth and engaging more with global economy.

Hence, in 1990s, Dr Manmohan Singh, the Finance Minister of India, took the first initiation towards globalisation and economic liberalization

KEYWORD: *rejuvenate, incumbent, Monopoly, liberalization, investment*

Economic liberalisation

Since 1991, economic reforms undertaken are referred as economic liberalisation. This comprises of two components, firstly ease or remove restrictions on the market operation and economic transactions, including altering the procedures of investment done at domestic and global level; licensing of imports; updating outdated legislation and introducing regularity authorities (SEBI, TRAI, IRAI, SERCs etc.). The second component is to create an environment of stable macroeconomic policy helpful to the market forces.

The meaning of economic liberalisation varies, to begin with the Development strategy, economic reforms takes away from lessening the dependence on international labour division towards integration with global economy progressively and aggressive involvement in it. This includes shift to clearly targeted public sector in commercial activities from inefficient and overextended public sector, performing main function of health, defence and education. The new strategy diagnoses the persistent poverty, burgeoning from unequal distribution of income and wealth of nation and insufficient employment opportunities being expanded.

Meaning for Government policy was structural adjustment and stabilisation. Structural adjustment includes reallocation of resources like capital, skill, labour etc. to diminish the wastages and to better the competitiveness of domestic firms at global level. Stabilisation includes correcting the past profligacy, demanding accountable monetary, fiscal and exchange rate policy in order to keep inflation rate lower and 'realistic' forex rate in congruent with healthy balance of payments.

For bureaucracy, considering themselves 'controllers' has to change with 'facilitators' for the smooth functioning of market. Their role is crucial in formulating and executing the changes that are integral to liberalisation. There is a need to give a way to the result oriented activities and more transparency in their activities, which were dominantly procedure oriented in the past.

Private entrepreneurs have to be positive towards the commercial risk occurred due to free operation of the market. They are advised to accept and rely on dynamics of market forces rather than approaching the government for a bail-out.

General public has to forgo the 'over-dependency syndrome' of previous period. What is more, they have more choices of producing and buying the commodities and services, the choice of various professions and occupations, varied options to save and do investment, in lieu of both freer domestic and international markets.

Undoubtedly, economic liberalisation is only an instrument to solve social and political problems, though everybody may not be able to harness its merits. This process of liberalisation would be more successful if implications are readily accepted by the society and polity.

Major elements of economic policy of liberalisation

De-reservation of industries for public sector: Presently, there are only 4 reserved industries in public sector: Defence products, Railways, Atomic power and Minerals to be used in Atomic power. While 17 industries, since 1956, reduced to 8, after 1991 policy and further been liberalised over the time, Defence sector is unreserved too for private sector after 2001.

Abolition of industrial licensing:
Industries of security and strategic importance are the exception, rest all have been freed from industrial licensing.

Freedom of production according to demand: There is freewill of firms to adjust their production schedule as per market forces.

Abolition of phased manufacturing programmes: Since there is no need of import license for raw materials, intermediate goods at large, case-to-case administration basis under the phased manufacturing programmes is not necessary to be enforced any longer.

Removal of mandatory convertibility clause: financial organisations can convert a part of their loan into equity shares if their management felt its urgency. However it is observed that, this facility has not been utilised, seen as a threat to start up, that is why; these institutions will not be able to impose the convertibility clause.

Removal of investment controls on large business houses:
MRTP ACT 1969 constrained all firms with assets above a certain size, to enter into defined industries only. Since this clause has been amended afterwards, these firms are not required to take approvals beforehand to invest in deli censed industries.

Dis-investment of government shareholding:
The recent examples like VSNL, Maruti Udyog Ltd. are allowed to sell their part of shares through mutual funds, employees, general public and financial institutions.

Reforms in foreign exchange management:
FEMA (Foreign Exchange Management Act) was replaced with FERA (Foreign Exchange Regulation Act) by the Central Government. The value of rupee is decided through variations in market forces. In open market, neither exporter have restrictions to sell their foreign currency nor importers to buy it from the market. This is termed as free convertibility of rupee.

Foreign investment:
The following concessions were allowed: first, 34 high priority industries were experiencing 51% of foreign investments in equities. Manufacturing activities in SEZs (Special Economic Zones) and some activities in telecom sector were permitted to get 100% foreign equity involvements.

Public sector policy:
New industrial policy, 1991 has classified the sector into 3 categories.

1. Those which lie in the high priority areas or in reserved area of operations should be strengthened.
2. Those which may be at present, becoming weaker but have viability in future; must be reengineered.
3. Those with persistent losing market share should be shut down or they should be handed to private sector.

The Indian Government aims at, from an economic perspective, making India a safe and easy place to invest via fighting corruption and the shadow economy, simplifying and unifying the tax system, liberalising the still conservative sectors and making nation digital amiable. The reform like GST nevertheless allows to assess the long-term vision of Indian economic policies and sends a welcoming message to the international community. Furthermore liberalisation has reduced the political risks to investors, for instance strong legal foundation to settle disputes, property laws etc. allow them to operate with confidence.

NDA Government under Narendra Modi, in 2015, allowed up to 49% of foreign direct investment in

Insurance sector, then by passing the Coal Mines Bill of 2015, the government ended its monopoly over the mining of coal, prevailing since nationalisation in 1973. The coal blocks and license, as well as commercial mining, were bid by Indian arms of foreign companies. This move results in huge investments by foreign miners accompanying with exchange of latest mining technology for the state-owned Coal India. This open up prospects of a better future of coal mine workers,

In the 2016 budget, a law was passed by BJP Government regarding Insolvency and Bankruptcy Code, according to which, if insolvency is not resolved within 180 days then the assets of borrower may be sold to repay creditors. As per experts, this is the second crucial reform taken in India since 1991 next to proposed GST, which eases the process of doing business from, 130 out of 189 countries as per World Bank's Doing Business Report 2016 (previously overlapping jurisdiction of four different forums during corporate insolvency led to systemic delays and complexities in the process).

Foreign direct investment
The year 2008 marked the highest FDI inflow of $43.4 billion which was negligible prior to 1991 reform. The reports of The Financial Times shows that, in 2015, China being top destination of foreign direct investment was replaced by India (attracted nearly Rs 4.19 lakh crore).Only period being exception was the global economic shutdown during 2008 and 2012 which did not experience in rising investments.

In 2017, Narendra Modi addressing global investors at the World Economic Forum, further eased norms of FDI in key sectors like rail infrastructure, civil aviation, retail trading, power exchanges and construction development. The government has already liberalised procedure for more than 15 sectors to attract invest including construction also. Now foreign firms can invest up to 100% in their single brand retail operation in India (previously limit was 49% through the automatic route after which government approval is needed). This retail is more liberal, they do not need to compulsory purchase 30% goods locally (mandatory for opening of first store during initial 5 years of global operation). This decision will be beneficial to Swedish home furnishing IKEA and smart phone maker Apple, though local supermarkets would still have advantage in terms of providing more choices to consumers by selling imported items too. Earlier foreign retailers were hesitating because of complicated approval route for investment proposals (in fact UPA had restricted supermarkets like Wal-Mart stores to cities with population in excess of 1 million) but now as many as 50 retailers have been keen to enter the Indian market. This proposal may help government meet its target of doubling income of farmers by 2020.

To widen competition for the purchase of Air India, Overseas players can take up to 49% in the loss-making national airline by taking government approval. In power exchange sector, foreign investors can invest up to 49% through the primary market which was until now, were allowed to invest via secondary market only.

FDI trends after the launch of Make in India between October 2014 and March 2017, showed an increase of 51% in total FDI inflows (from $61.4 billion 30 months back to $99.7 billion in March 2017). It is striking to note that Manufacturing sectors experienced a growth of 14% in 2015- 2016, soared up overwhelmingly witnessing 52% growth in 2016-2017. India has now become the “topmost attractive destination for foreign investment” and this is mainly owing to intense and bold policy reforms government undertook to bring pragmatism in the FDI regime.

India is an ‘investment gateway’ for instance, last October 2017, UAE investors announced to invest nearly $2.5 billion in India, including $1 billion worth of investment by Abu Dhabi Investment Authority, one of the largest sovereign wealth funds in the world and a further $460 million investment in Andhra Pradesh by Lulu group. India has emerged as a top new investment destination for the oil-rich nation which definitely boosting the bi-lateral relations. Their bilateral synergy have now diversified to new sectors such as IT, Space technology, security, counter-terror operation, defence manufacturing etc. This whole investment story is just an exemplary of so many positive effects of liberalisation in India in recent years.

Foreign institutional investment:

FII (an institution established outside India which proposes to make investment in India in securities) is not done on long term basis and its inflows may often reflect economic and political stability of the country. Over the years, owing to huge growth potential, emerging economy like India have become hot destination for foreign institutional investors. In fact, SEBI has more than 1400 of them registered with it. Its inflows rose to $45.7 billion in 2014-2015 from $8.9 billion in 2013-2014, a 414 % shoot up in just 1 year. In next one year period, $2.5 billion only was a net FII outflow. FIIs have a considerable influence on Indian economy- its sudden influx can essentially drive the Indian stock market. Additionally, it lowers the cost of capital and help to get cheap credit overseas. On the flip side, its inflow, if slows down then it will slump the wealth generation by the stock market and also economy will suffer the depression of the currency. What is more, to prevent huge swings in the exchange rate, the RBI would have to shoot up interest rates, leading to losses of companies who need funds for the growth internally. This will, hence, decelerate the growth of the Indian economy.

Presently, current account deficit in India is high and this can be financed only by foreign investments, that is why through liberal policies, the Indian government is encouraging FIIs. There is optimism among industry experts and the government in this concern. “Although valuations of Indian markets are quite rich, what these structural reforms tell investors is that valuations may be rich today, but the longer-term story is improving materially for us to stick with for the long term,” Mermani said.

GST (goods and service tax) changed FII outlook into more confident towards the continuity of reforms in India. Evidently, as many as 269 new foreign portfolio investors (FPIs) registered with capital regulator SEBI in April 2017, which indicates their willingness to be part of India’s growth story.