# New economic Reforms- Liberalization, Privatization and Globalization, rationale and need for reforms

**Impacts of Privatization**

Privatization in generic terms refers to the process of transfer of ownership, can be of both permanent or long term lease in nature, of a once upon a time state-owned or public owned property to individuals or groups that intend to utilize it for private benefits and run the entity with the aim of profit maximization.

ADVANTAGES OF PRIVATIZATION

Privatization indeed is beneficial for the growth and sustainability of the state-owned enterprises.

• State owned enterprises usually are outdone by the private enterprises competitively. When compared the latter show better results in terms of revenues and efficiency and productivity.

Hence, privatization can provide the necessary impetus to the underperforming PSUs .

• Privatization brings about radical structural changes providing momentum in the competitive sectors .

• Privatization leads to adoption of the global best practices along with management and motivation of the best human talent to foster sustainable competitive advantage and improvised management of resources.

• Privatization has a positive impact on the financial health of the sector which was previously state dominated by way of reducing the deficits and debts .

• The net transfer to the State owned Enterprises is lowered through privatization .

• Helps in escalating the performance benchmarks of the industry in general .

• Can initially have an undesirable impact on the employees but gradually in the long term, shall prove beneficial for the growth and prosperity of the employees .

• Privatized enterprises provide better and prompt services to the customers and help in improving the overall infrastructure of the country.

DISADVANTAGES OF PRIVATIZATION

Privatization in spite of the numerous benefits it provides to the state owned enterprises, there is the other side to it as well. Here are the prominent disadvantages of privatization:

• Private sector focuses more on profit maximization and less on social objectives unlike public sector that initiates socially viable adjustments in case of emergencies and criticalities .

• There is lack of transparency in private sector and stakeholders do not get the complete information about the functionality of the enterprise .

• Privatization has provided the unnecessary support to the corruption and illegitimate ways of accomplishments of licenses and business deals

ADVANTAGES AND DISADVANTAGES OF PRIVATISATION IN INDIA

- Privatization loses the mission with which the enterprise was established and profit maximization agenda encourages malpractices like production of lower quality products, elevating the hidden indirect costs,



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price escalation etc..
• Privatization results in high employee turnover and a lot of investment is required to train the lesser-qualified staff and even making the existing manpower of PSU abreast with the latest business practices .
• There can be a conflict of interest amongst stakeholders and the management of the buyer private company and initial resistance to change can hamper the performance of the enterprise .
• Privatization escalates price inflation in general as privatized enterprises do not enjoy government subsidies after the deal and the burden of this inflation effects common man

**Impacts of Globalisation:-**

Definition of Globalization :- Its a process(not an outcome) characterized by increasing global Interconnections by gradual removal of barriers to trade and investment between nation and higher economic efficiency through competitiveness.

Various economic, political, social and cultural effects of globalization are as follows:-

Economic:-

- Breaking down of national economic barriers
- International spread of Trade, Financial and productive activities
- Growing power of transnational cooperation and International financial Institutions(WTO, IMF)Through the process of:-

1- Liberalization- relaxation of restrictions, reduction in role of state in economic activities,decline in role of govt in key industries, social and infrastructural sector.

2- Privatization- Public offering of shares and private sale of shares, entry of private sector in public sector and sale of govt enterprises.

3- FDI

4- International regulatory bodies(WTO,IMF)

5- MNC's

6- Infrastructural development

7- Expansion of information and communication technology and birth of information age.

8- Outsourcing of services- ie BPO and Call Centres.

9- Trade related intellectual property rights(TRIPS)- product based patent rather than process based.

Social effects:-

- Withdrawal of National govt from social sectors ie declining share of govt in public spending, reducing social benefits for worker(social



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dumping,pension cuts,subsidies reduction)

- Labor reforms and deteriorating Labor welfare:-
  - Labour Market deregulation:-
    - Minimum wage fixing
    - Employment security
    - Modifying tax regulation
    - Relaxed standards of security
  - Increased Mechanization demands skilled labour and thus loss of job for unskilled labour
  - Loss of jobs for traditional workers for example bihar silk workers due to imported Chinese- Korean silk
- Feminism of Labour ie increased women participation specially in soft industries
- Trickle down theory of poverty reduction has limited success and in agricultural nations poverty has infect increased.
- Unsustainable development practices such as:- excessive use of fertilizers, irrigation, fish trawling by mnc's(Protein flight ),Exploitation of natural resources by MNC's.
- Migration and urbanization have lead to problem of slums
- Commercialization of indigenous knowledge:- patenting
- Rising inequality in wealth concentration

Cultural:-

- Increased pace of cultural penetration
- Globalization of culture
- Development of hybrid culture
- Resurgence of cultural nationalism ie shivsena opposing valentine day

Political:-

- Globalization of National Policies- Influenced by International agencies
- Reducing economic role of govt
- Political lobbying

Positive effects of Globalization

- Increased competition
- Employment generation
- Investment and capital flow
- Foreign trade
- Spread of technical know how
- Spread of education
- Legal and ethical effects
- Improved status of women in the society
- Urbanization
- Agriculture:- greater efficiency,productivity, use of HYV seeds, Future contracts and cooperative farming
- Higher standard of living



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# International financial institutions IMF, World Bank. WTO, their role and impact on Indian economy

World Bank

The International Bank for Reconstruction and Development (IBRD), commonly referred to as the World Bank, is an international financial institution whose purposes include assisting the development of its member nation's territories, promoting and supplementing private foreign investment and promoting long-range balance growth in international trade.

The World Bank was established in December 1945 at the United Nations Monetary and Financial Conference in Bretton Woods, New Hampshire. It opened for business in June 1946 and helped in the reconstruction of nations devastated by World War II. Since 1960s the World Bank has shifted its focus from the advanced industrialized nations to developing third-world countries.

Organization and Structure:

The organization of the bank consists of the Board of Governors, the Board of Executive Directors and the Advisory Committee, the Loan Committee and the president and other staff members. All the powers of the bank are vested in the Board of Governors which is the supreme policy making body of the bank.

Capital Resources of World Bank:

The initial authorized capital of the World Bank was $ 10,000 million, which was divided in 1 lakh shares of $ 1 lakh each. The authorized capital of the Bank has been increased from time to time with the approval of member countries.Member countries repay the share amount to the World Bank in the following ways:

1. 2% of allotted share are repaid in gold, US dollar or Special Drawing Rights (SDR).
2. Every member country is free to repay 18% of its capital share in its own currency.
3. The remaining 80% share deposited by the member country only on demand by the World Bank.

Objectives:

The following objectives are assigned by the World Bank:

1. To provide long-run capital to member countries for economic reconstruction and development.

2. To induce long-run capital investment for assuring Balance of Payments (BoP) equilibrium and balanced development of international trade.



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3. To provide guarantee for loans granted to small and large units and other projects of member countries.

4. To ensure the implementation of development projects so as to bring about a smooth transference from a war-time to peace economy.

5. To promote capital investment in member countries by the following ways;

(a) To provide guarantee on private loans or capital investment.

(b) If private capital is not available even after providing guarantee, then IBRD provides loans for productive activities on considerate conditions.

Functions:

World Bank is playing main role of providing loans for development works to member countries, especially to underdeveloped countries. The World Bank provides long-term loans for various development projects of 5 to 20 years duration.

The main functions can be explained with the help of the following points:

1. World Bank provides various technical services to the member countries. For this purpose, the Bank has established "The Economic Development Institute" and a Staff College in Washington.

2. Bank can grant loans to a member country up to 20% of its share in the paid-up capital.

3. The quantities of loans, interest rate and terms and conditions are determined by the Bank itself.

4. Generally, Bank grants loans for a particular project duly submitted to the Bank by the member country.

5. The debtor nation has to repay either in reserve currencies or in the currency in which the loan was sanctioned.

6. Bank also provides loan to private investors belonging to member



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