UNIT -1 MEANING, CHARACTERISTIC OF GLOBALISATION

Structure

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1.1 INTRODUCTION

This unit gives an over view of the meaning and approaches of globalization. This unit also discuss about the major characteristic features of globalisation. It treats globalisation as a social process and how it was brought into intellectual discourses and the domain of sociological inquiry. Globalisation is a term that has been used to explain the integration of the world, in multiple ways – economic, political, cultural, technological and geographic. Though globalisation cannot and must not be limited to mean economic integration of the world, the term globalisation has been, over the years, seen to be synonymous with economic globalisation.

1.2 LEARNING OBJECTIVES

After studying the unit you will be able to:

- Understand the meaning, definition and approaches of Globalisation
- Explain the various characteristic of Globalisation

1.3 GLOBALISATION: MEANING, DEFINITIONS AND APPROACHES

Globalisation is a distinguishing trend and feature of the modern society. As a term it had its origin in French and American writings in the 1960s. But, it came into popular usage in the 1980s. Since then it has become a debatable topic among the academia, policy planners and practitioners. It is a social process that has resulted in greater interconnectedness and integration of people and nations across the borders. The process has stirred greater movement of individuals, ideas, knowledge, capital and goods across the national borders. Simply it can be described as a social process that has resulted in the dissemination of information, dispersion of ideas, diffusion of knowledge and technological knowhow, distribution of resources leading to the transformation of societies. It is a process of interaction and integration among the people, companies, and governments of different nations, a process driven by international trade and investment and aided by information technology. Globalization is the worldwide process of homogenizing prices, products, wages, rates of interest and profits. It is a process by which the people of the world are unified into a single society and it leads to the integration of national economies into the international economy through trade, foreign direct investment, capital flows, migration, and spread of technology. Thus, globalization is a single word describing multiplicity of phenomena. It is omnipresent, ubiquitous and multidimensional.

Globalisation during last two decades has been called as the most talked about phenomenon. However, what exactly needs to be included under the term globalisation is deeply contested. It is a multi-dimensional phenomenon, involving diverse activities and interactions including the economic, political, technological, cultural and environmental.

- To quote Albrow globalisation includes “all those processes by which the peoples of the world are incorporated into a single society, global society”.

- In the languages of Ronald Robertson “Globalization as a concept refers both to the compression of the world and the intensification of consciousness of the world as a whole.”

- Anthony Giddens sees Globalisation as, "The intensification of world-wide social relations which link distant localities in such a way that local happenings are shaped by events occuring many miles away and vice-versa". The term has been used expansively to include an enormous range of features of contemporary life. Five of them can be considered as crucial to its understanding:

a) Stretched Social Relations

Globalisation invokes cultural, economic and political networks of relations spread across the world, denser than in any previous periods. Further they are not confined to merely specific regions. They envelop the whole world,

b) Intensification of Flows Globalisation and Liberalisation

Globalisation is manifest in the rapid flow of information, capital and goods. They result in networks and interactions that transcend any effective monitoring and control by the nation-states. They beget social interactions that could have little to do with geographical and cultural contiguity. Mobile phones, satellite television and internet, which are based on the flows, do not respect the spatial frameworks that bound communication hitherto.

c) Increasing Interpenetration

Under globalisation cultures and societies that were hitherto distinct come face to face with one another and get interwoven into the ways of social life of others. Differences of language, food, dress and beliefs become constitutive of social make-up.

d) Global Infrastructure

They are formal and informal institutional arrangements in the economic, political and cultural domains that facilitate networking and flows. Their reach transcends the bounds of nation-state. They facilitate the functioning of a global market. They embody codes and regulations holding transnational interactions in place. They provide the mechanisms of global governance.

e) Reformulation of Social Relations

Under globalisation relations between social classes are brought sharply to focus on a global scale. In the earlier phases of capitalism class relations were primarily defined within the vortex of the nation-state. Globalisation brings about a dense interaction between dominant classes and regions outstripping national cleavages. It throws up new social strata and factions both at the national and global levels. It reformulates inequalities and existing unevenness in economic and power relations.

1.4 CHARACTERISTICS OF GLOBALISATION

The above five-fold features inform the following characteristics of the globalising world.

a) It is an inter-connected world: It is connected on account of modes of simultaneous communication to any part of the world. It is also a connected world on account of the problems that confront humanity as a whole. Problems such as global climatic changes, the depletion of the ozone layer, drugs, terrorism, pollution of the oceans etc. are beyond the scope of any particular nation-state.

b) Distant actions in one comer of the globe have rapid and significant repercussions in other parts. For instance, the East Asian Crisis of 1997- 1998 on the New York Stock Market on Bombay Stock Market etc.

c) There is the emergence of global social strata sharing certain common cultural features. For instance: English language, Blue Jeans, Sweat Shirts, etc. These features increasingly penetrate national cultures and may attempt to bring about levels of homogenisation of modes of living, thought and interactions.

d) Globalisation encapsulates the entire range of social relations. It has its impact on every facet of life. However, the momentum of these relations may not move at a uniform pace.

e) Under globalisation power relations come to be articulated increasingly at the global level. New organisations come to be established for the purpose.

f) Development of communication technology undermines the authority of the nation-state and poses a threat to its sovereignty.

g) It connects localities with the world bypassing national boundaries.

h) Sometimes individuals and smaller institutions in control of a front-line technology can challenge the power of global organisations by forming alliances. There grows up a new entrepreneurship around such knowledge based industry.

i) The prevailing pattern of globalisation has widened economic inequalities and has worsened the lot of the impoverished. It has threatened the existence of local cultures.

j) Globalisation also brings new opportunities. It widens tremendously the range of choices available to people. It breaks down such geographic barriers as town and countryside and metropolis and periphery to access resources and information. One can live locally while being in tune with the global context.

k) It is the integration of the global financial markets that often remains the hallmark of globalisation. It involves new forms of financial sanctions, assisted by new modes of communication. It has led to the weakening of the national stock markets and tremendous growth in international bank lending, international bond markets etc.

l) It involves a struggle to dominate global markets and centralisation of power in a few organisations. The rise of the Multinational Corporations (MNCs), the International Monetary Fund (IMF), the World Bank and the World Trade Organisation (WTO) have come to play bear witness to it. The process of Globalisation has hitherto been accompanied by a strong dose of Arnericanisation manifest in such symbols as 'Coca-Cola' and 'Macdonald' and has reinforced its influence over the other regions of the world.

Thus, we see that there are different facets to globalisation. As a result of this, the term globalisation today has multiple meanings and definitions.

Check your progress 1.1

Note:

i. Write your answer in the space given below
ii. Compare your answer with the one given at the end of this Unit.

Q1. Define Globalisation?

Ans-

1.5 LET US SUM UP

- Globalisation is a term that has been used to explain the integration of the world, in multiple ways – economic, political, cultural, technological and geographic.

- Globalisation includes "all those processes by which the peoples of the world are incorporated into a single society, global society".

- Globalisation is manifest in the rapid flow of information, capital and goods. They result in networks and interactions that transcend any effective monitoring and control by the nation-states.

- The General Agreement on Trade in Services (1995), of the World Trade Organisation counts education as a commercial service that can be exported, thereby expanding its global outreach.

- The process of Globalisation has hitherto been accompanied by a strong dose of Arnericanisation manifest in such symbols as 'Coca-Cola' and 'Macdonald' and has reinforced its influence over the other regions of the world.

1.6 GLOSSARY

Globalisation: Globalization means the speedup of movements and exchanges (of human beings, goods, and services, capital, technologies or cultural practices) all over the planet. One of the effects of globalization is that it promotes and increases interactions between different regions and populations around the globe.

Neoliberalism: A political approach that favours free-market capitalism, deregulation, and reduction in government spending.

Privatisation: The transfer of ownership, property or business from the government to the private sector is termed privatization.

1.7 CHECK YOUR PROGRESS: ANSWER KEYS

Ans to Q1- Globalization as a concept refers both to the compression of the world and the intensification of consciousness of the world as a whole.

1.8 MODEL QUESTIONS

1. What is globalisation; give some important definitions of globalisation?
2. Delineate the characteristics of globalisation.

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UNIT- 2 EMERGENCE OF GLOBALISATION

Structure

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2.3 Globalisation and its History: An Introduction
2.4 Origin of globalisation
2.5 Modern World-System: Phase I
2.6 Modern World-System: Phase II
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2.10 Model questions
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2.1 INTRODUCTION

This Unit will look at the many definitions of globalisation in the coming paragraphs. However, its main focus will be on the history of globalisation, specifically economic globalisation, its origin, and its different phases given its place in the globalisation discourse.

2.2 LEARNING OBJECTIVES

After reading this unit, you will be able to;

- Understand the history of globalisation
- Define the various forms of globalisation
- Explain the origin of globalisation
- Explain the different phase of modern world-system

2.3 GLOBALISATION AND ITS HISTORY: AN INTRODUCTION

Globalisation is a term that has been used to explain the integration of the world, in multiple ways – economic, political, cultural, technological and geographic. Though globalisation cannot and must not be limited to mean economic integration of the world, the term globalisation has been, over the years, seen to be synonymous with economic globalisation. Additionally, as we shall see, globalisation must not be seen as the monopoly of Europe and the West, since in the past centuries, influences from the East have also made their way Westwards. Today, the revolution in electronic and communication technology, has greatly expanded the reach of globalisation.

The term ‘global village’ is a jargon apt for usage in the global era that we live in. Coined by Marshall McLuhan (1962), it notes the integration of people all over the world through the speedy passing of information, via the medium of electronic technology.

The term globalisation has been a subject of discussion in the international political, economic, social and development contexts. Though advocates of neoliberalism and open markets support globalisation as the means to economic prosperity for the masses, and its opponents blame it and the force that spread it across the globe, i.e. capitalism, for increasing inequalities in the world, there is no consensus on what exactly the term means and when it originated. There are many definitions of the term and there are different academic views on when globalisation began, though some of these views, such as that of Wallerstein’s world -systems analysis, have gained more academic momentum than others. In its current form, however, globalisation is the result of a conscious policy decision in the 1990s by governments in Asia, Africa and Latin America some even earlier to restructure their economies and open their markets to the world.

Before we go into the history of this term, it is important to understand the meaning of the term globalisation. Globalisation in its simplest present-day definition is the movement of people, capital and goods. It is also seen as a process that has increased the integration and inter-connectedness of countries and people around the world. Some academics consider globalisation to be as old as primitive man. For, it is the migration of the primitive man across continents that established human settlements in different parts of the world. There is obviously a significant difference between the migration of primitive man, as a characteristic of globalisation, and the internationally recognised aspect of macro-economic policy changes, that have made the world a more interconnected place and brought about multiple forms of integration.

While economic globalisation has taken centre-stage in the discussions surrounding the term globalisation, today more aspects of globalisation are given their place in globalisation discourse. Ritzer (2009) notes that there are many types of globalisations, and though they are heavily influenced by economic considerations, each has its own peculiar trait. Political globalisation emphasises the global nature of political relations and the role of political organisations such as the United Nations, regional groupings such as the ASEAN and the NAFTA and even terrorist organisations such as the Al Qaeda, each of whose actions and policies has a global impact. Cultural globalisation refers to the global impact of cultural influences from particular nations – such as food, music, television shows, art and aesthetics and films. These cannot be limited to the borders of a nation-state, but have travelled beyond them and some have even become a part of or influenced foreign cultures. For example, Bollywood movies have a fan following of Indians not just in India and around the world, but of non-Indians as well.

The next type of globalisation is based on religion because, according to Ritzer (2009), most religions of the world seek to have a global presence and following. Today, religion knows no boundaries. For instance, one can be a practicing Buddhist not just in Tibet or India, but in Europe or North America as well, as a result of the global influence of the sayings of the Dalai Lama. Ritzer (Ibid.) calls science a 'global enterprise' because much scientific knowledge that comes out today is based on information sourced from around the world. Though scientific knowledge began to be disseminated throughout the world since the early twentieth century, this has become even truer today, with the advent of the Internet. This is true also for health and medicine, which is the other basis of globalisation; since there are diseases which are common the worlds over; medicine which is the cure for them has a global reach. Sports and education are the other two areas which have been globalised. As far as sports is concerned, there are international bodies such as the International Cricket Council and competitions such as the Wimbledon Championships which are known the world over and have members/competitors from all over the world; moreover, the media has helped to spark a global interest in sports, even those which have not originated in one's own country of origin. Finally, education, especially higher education, has become globalised as well. Not only do many Western universities and colleges have online courses that can be accessed worldwide, but today, more young people travel abroad for higher studies. Moreover, the General Agreement on Trade in Services (1995), of the World Trade Organisation counts education as a commercial service that can be exported, thereby expanding its global outreach.

2.4 ORIGIN OF GLOBALISATION

Frank and Gills (1992) suggests that the history of the world system – they denote the term without the hyphen, unlike Wallerstein's denotation of the term - dates back to five thousand years and that the rise of Europe and the West are but recent and 'passing' phenomena in the history of the world-system. Moreover, they argue that some of the characteristics which were typical of the modern world system, actually existed much before its officially recognised period of emergence, as given by Emmanuel Wallerstein (1974). For example, unlike Wallerstein, Samir Amin (1975) and the dependency theorists, for Frank and Gills, capital accumulation, which is characteristic of the modern world system, has existed for many thousand years before the world-systems analysis's attribution of the Middle Ages as its origin.

Wallerstein calls previous systems as 'world empires' and Amin calls them 'tributaries' where 'political and ideological' rather than economic unity – which is characteristic of the world-system - was predominant. Moreover, the dependency theorists' emphasis on the core-periphery angle in the modern world system, in which surplus is transferred from the periphery regions to the core regions, is something that Frank and Gills note could have existed in world systems before the rise of the modern world system. According to Frank and Gills, while Wallerstein and others consider the modern world system to be cyclical, in that core-periphery relationships keep changing and so do world system hegemonies and rivalries, they believe that such cycles existed long before the academically recognised origin of the modern world system.

Sen (2002) notes that globalisation need not necessarily be seen as ‘global westernisation’. Rather, if one were to look at the causes of globalisation, then one needs to go back to the beginning of 1000 AD. Around this time, more than Western influences, it was advancements in the East - in China, India and the Arabic world - that found their way to and became an integral part of Western culture. Around 1000 AD, China had already made advancements in simple technology. For instance, the Chinese had already invented ‘paper, the printing press, the crossbow, gunpowder, the iron-chain suspension bridge, the kite, the magnetic compass, the wheelbarrow, and the rotary fan’ (Ibid.). These innovations in technology were not known in other parts of the world, and according to Sen, it is globalisation that spread them to Europe. Similarly, the decimal system was originally invented in India and subsequently used by Arab mathematicians. Later, it found its way to Europe. In this way, Sen tries to make the point that in this integration of Asia and Europe, one sees the opposite of what is happening today, i.e. a movement of ideas, technology and innovation, from the East to the West. So, Sen notes that globalisation should not be considered the monopoly of the West or inherently a Western phenomenon.

Though Wallerstein’s description of the origin of globalisation through his explanation of the modern world-system is considered Eurocentric and is not without its criticisms, it is acknowledged in academic circles as a good source to understand the origins of modern-day globalisation, as we know it. Wallerstein (1974) compares the emergence of the modern world-system to previous watersheds in ‘world social science’ such as the emergence of the Neolithic Man and the transformation from the Middle Ages to the Modern World. He calls these systems structures and sees changes in them as being qualitative in nature and resulting in a world vastly different from the one in the past. According to Wallerstein, there are there are four periods that any history of globalisation should concern itself with. These are: 1450-1640 when the modern world-system first originated and was still confined to Europe; 1640-1815, when the modern world-system was strengthened by the activities of the system; 1815-1917, when industrial revolution and modern technology converted the ‘world-economy into a global enterprise’ and 1917 -1970s, when the capitalist world-economy was strengthened and the world began to witness the revolutionary urges to overthrow the capitalist world-system.

Wallerstein sought to distinguish the modern world-system from previous systems. According to him, the modern world-system is a world-economy, i.e. it is an economic unit with multiple political centres. Previous world-systems were, according to Wallerstein, political units such as ‘empires, city-states and nation-states’. The modern world-system is a world-system because it is bigger in size than a political unit and it is a world-economy because of the existence of economic interdependence, which got a boost through cultural and political ties between the parts of the system. This world-economy consolidated itself as a result of the advantages it had due to scientific and technological advances.

How did the modern world-system emerge? It was the consequence of a series of events which occurred between the twelfth and the fifteenth centuries in Northern Europe, when feudalism as the mode of social organisation was on its way out. There were various reasons for the collapse of feudalism but the predominant ones were (i) natural causes such as drastic climatic changes which made traditional crop cultivation difficult and an outbreak of bubonic plague that killed several thousands and (ii) a crisis of the economic base of feudalism, which exposed the internal contradictions in its superstructure and finally led to its collapse. The economic base of the feudal system was based on the unjust principle of landlords monopolising the land and the judicial system and to whom the peasants had to sell their surplus. As far as the superstructure was concerned, the clergy and the feudal aristocracy were in conflict with each other in regard to the question of who held more power.

These problems were compounded by the rapid increase in population whose demands could not be met by the limited technological advancement of the time; at the same time the peasants had to sell additional surplus to the landlords given that Europe was embroiled in wars, and the army had to be maintained. Consequently, the expenditure of the feudal aristocracy increased in an unsustainable manner. Many peasants migrated from the villages to the towns where they engaged in the urban local crafts economy. In this relatively new set up, local trade began to expand and grow, and along with it came more urbanisation and population growth. However, as a result of the wars being fought in Europe, the economy could not flourish as most of the surplus went in the upkeep of the army.

Taxing the peasants for the maintenance of the army was an extra economic burden on the peasants over and above their traditional feudal obligation of selling their surplus to the landlords. This resulted in peasant revolts against the feudal nobility. As mentioned earlier, the superstructure was already weak, with the Church and the rulers in conflict with each other and struggling to hold on to power. The weakening of the base and superstructure of the feudal system ultimately resulted in its demise. With the feudal system cracking at the base, new modes of production came into place gradually. Chief amongst these were (i) the transformation from traditional, including subsistence patterns of agriculture, to commercial, cash crop agriculture, (ii) the growth of commerce and most significantly, (iii) the expansion of the European economy outside the borders of Europe to other parts of the world for business and for conquest.

The expansion of the European economy the world over was significant because it created the modern world-system, in which several different parts of the world have converged, or have been brought together, on the basis of economic linkages. It is in this process that we see the origins of globalisation as we know it today.

Globalisation is perceived to be a relatively new term with an old history. Academic thinking on globalisation stretches from pre-modern times, to the Middle Ages, Modern Age and finally the contemporary period. In the coming paragraphs, we shall see the history of globalisation beginning from the Middle Ages. While economic self-reliance and capital accumulation have been motivating factors which resulted in globalisation as we know it today, these factors have also been the motor force behind what is today seen to be the political, cultural, technological and even military 'superiority' of the most advanced nations of the world.

Check your progress- 2.1

Note:

i. Write your answer in the space given below

ii. Compare your answer with the one given at the end of this Unit.

Q1. What is cultural globalisation?

Ans-

2.5 MODERN WORLD-SYSTEM: PHASE I

How did the expansion of the European economy affect the rest of the world? Wallerstein (1974) notes that the main impact was the formation of an international division of labour in which the kind of labour one performed and the kind of economic activity one performed depended on which part of the world-system one belonged to. According to Wallerstein, the world was divided into three main regions, the core, the periphery and the semi-periphery, based on an unequal division of labour. In this unequal economic division of the world-system, we see the roots of (economic) globalisation, i.e. the process by which capitalism was spread across the world. According to Wallerstein, the modern world-system emerged in the early sixteenth century and consolidated itself by the middle of the seventeenth century.

When it first emerged, the core region, which was the area that benefited most from capitalist economic growth and the capitalist world-system, comprised of North Western Europe, primarily England, France and the Netherlands. The core region was marked by centralised governments or monarchs, a centralised administration and a strong army. In rural areas, the core region was characterised by the rise of independent farmers, who, with the end of feudalism, paid rents to work on the land. Additionally, many landless labourers were provided cheap wages for working on the land. Those who could not find any jobs in the villages moved to the towns where they provided cheap, temporary labour for the urban local economy. With the rapid increase in technology, agriculture also expanded. As far as the urban bourgeoisie was concerned, they controlled much of the world trade and obtained the surpluses in the world-system.

The periphery region was controlled by the core region. Its economy depended on trade ties with the core region. The periphery lacked a strong state and bureaucracy and was often conquered and plundered by the core region states. Examples of peripheral areas when the world-system emerged were parts of Eastern Europe and Latin America. The labour in these areas was characterised by forced or bonded labour, debt peonage and slaves. Latin America which was conquered by Spain and Portugal had to contend with the weak administrative and political structures brought to the region by the Spanish and the Portuguese. The main function of the peripheral region was to export surplus, cheap labour, precious metals such as gold and silver, and raw material to the core region. What they produced was not generally for their own consumption but for the world-economy.

The semi-periphery lay between the core and the periphery. This region was characterised by core areas which had declined in economic growth or peripheral areas which were trying to better their economic status. Examples of semi-peripheral areas included South Western Europe, Spain and Portugal, Southern France, Germany and Italy. The governments in this region were weak, while the landlord class was strong. This region had better access to international commerce and high quality manufactured products in the world-economy though it was not to the extent that the core region had. In the rural areas, this region was characterised by sharecropping. The semi-periphery region tended to extract surpluses from its peripheral colonies. For instance, Spain and Portugal treated the regions of Latin America that they had conquered as the source of precious metals like gold and silver, which they used to pay for the manufactured goods they bought through their trade with the core regions.

There was one other region that Wallerstein described and that was the external area, which lay outside the international world-economy. Examples of external areas included Russia, interior Africa, South Asia and the Ottoman Empire. From this division of the world into core, periphery and semi-periphery, we can conclude that core was economically strong with a strong state and bourgeoisie, wage labourers and self-employment, the semi-periphery was economically weak and characterised by sharecroppers and landless labourers and the periphery was economically weakest, and characterised by forced labour and feudal system.

In the capitalist world-system the international division of labour was structured in such a way that the surplus could be extracted from the semi-peripheral and peripheral regions for the benefit of the core region. Had this international division of labour not existed, the capitalist world-system would not have been able to consolidate itself. Moreover, the type of labour and mode of production that a region was characterised by was also a reflection of the strength of the governments in that region and of the domestic bourgeoisie. So, in the core region, where manufacturing and wage labour thrived, the state was strong, had a bureaucracy for centralised control and an army to protect against invasions, so that the bourgeoisie could concentrate their energies on commerce and growth. Likewise, in the peripheral region, characterised by feudalism and coerced labour such as slavery, the state was weak, there was no domestic bourgeoisie, and this region produced for the international market rather than for the domestic one.

Between the middle of the fifteenth and seventeenth centuries (1450-1670), politically, with the fall of feudalism, feudal lords and princes began to lose their prominence and government began to be centralised. The bourgeoisie preferred supporting a centralised government structure, like a monarch who would be assisted by a bureaucracy, to overcome the threat of the feudal system. In return for bourgeois support, the monarch agreed to support their economic pursuits, by maintaining law and order, allowing monopolies in trade – an example being the East India Company, which had the monopoly of trade in India, as granted by the British monarch - and maintaining ports and securing them through strong navies so that the bourgeois class may expand trade outside European borders. The bourgeois class also helped to maintain the army to protect the state from external aggression. During this time, the Church lost its prominence, with the powers of taxation being transferred to the monarch. With the rise of the absolutist state, there was also an increased religious homogeneity and an identification of one's religion with that of the monarch's.

Accompanying the shift from feudal aristocracy to absolute monarchy were some important changes in belief systems. One was the struggle by the monarch to vest power with him/her through control over the state and its administrative, judicial and executive machinery. Once this occurred, the balance of power shifted from the Church to the monarch who became the most powerful person, though his/her power was limited as a result of the existence of interest groups such as the bourgeoisie and the clergy. The second major change was a shift from Catholicism to Protestantism through the elaborate process known as the Protestant Reformation. While corruption in the church was one issue, the bourgeois interest group saw the clergy as opposed to its interests and as supportive of the earlier feudal system. Additionally, with the Protestant Reformation, power was transferred from the Church to the monarch. Moreover, as has been shown by Max Weber's famous work, *Protestant Ethic and the Spirit of Capitalism*, Protestantism and the capitalist ideology were compatible.

Check your progress 2.2

Note:

i. Write your answer in the space given below

ii. Compare your answer with the one given at the end of this Unit.

Q2. Who wrote the book *Protestant Ethic and the Spirit of Capitalism*?
Ans-

The bourgeois played an important role in bringing about these changes. A key characteristic of the manner in which the bourgeoisie functioned was that they sought profits in any enterprise they undertook and used that profit to further expand that enterprise. It is in this behaviour, that one sees the origins of capitalist accumulation, which is characteristic of the modern world-system and the key process that led to its spread across the world, i.e. globalisation. The shift from the feudal to the capitalist system resulted in different modes of social organisation in North Western Europe. Where there were traditionally serfs or peasants who paid feudal taxes in the form of surplus to the landlords, now there were wage labourers, tenant farmers and enclosure farming for cash crops. In the towns, commercial transactions such as banking expanded. Paid workmen were hired on a contractual basis, thus creating the proletariat class. The market became the place where commodities, whether agricultural or cash crop, were sold for a profit. An outcome of these activities was that more people began to enter the market place, either as bourgeoisie or proletariat, for a share of the profit.

During this time, the bourgeois position was strengthened through their economic activities. Capitalist accumulation in the core states strengthened the position of the North Western European countries. The bourgeois in these countries consolidated their positions so that they did not have to depend on the monarch for their own sustenance. During this time, religion began to be of lesser importance and scientific thinking and new political thinking such as the rights of man began to be discussed in earnest. These new styles of thinking were more compatible with the bourgeois ideology.

2.6 MODERN WORLD-SYSTEM: PHASE II

Between the seventeenth and nineteenth centuries (1640-1815), North Western Europe witnessed more changes. One of the most significant of these was the Industrial Revolution, when North Western European countries transformed from a predominantly agricultural to a predominantly industrial mode of production. As far as its economic relations with the rest of the world was concerned, Europe began to move from an initial focus on trade, towards conquering new areas to create markets and establish colonies. During this time, countries in Asia and Africa, which were new colonies of European states, entered the world-economy as peripheral areas.

With industrial capitalism as the predominant mode of production (base), came more changes in the superstructure. Technology became more advanced, the nation-state became the single most important unit of political and administrative power – no longer the monarch - and even the everyday life of people underwent a change as a result of increasing urbanisation, migration to urban areas, break up of large families and entry of more people into the working class category.

The core regions of the world were industrially more advanced than those of the periphery and semi-periphery. The main characteristic of industrialisation, when it first emerged, was that the mode of production had shifted from the use of human power to the use of fossil fuels like coal and natural gas. Typical of industrial societies was the existence of large factories. The pioneer in Industrial Revolution was England. The main features of the Industrial Revolution in England were the mechanisation of production, technological advancement and most importantly, the shift from labour system to factory system.

One of the main reasons why the Industrial Revolution began in England was because of the huge supplies existing there of a natural resource like coal, which was converted into steam – for use in the steam engine, for example. The use of coal helped England achieve advances in technology, innovation and industrialisation unlike any seen before. Not only was coal used for industries like paper manufacturing and arms and armaments, it was also used for domestic consumption. Homes required coal for heating. Various studies related to industrialisation in England in the eighteenth century have shown that the industrial consumption of coal outpaced that of domestic consumption. With the help of coal, the rail, steel and iron industries got a boost. These industries, also known as capital goods industries, surged forward in economic output in England in the nineteenth century.

Moreover, England had already in existence during its transformation into an industrial power, an established cotton industry, which benefited from technological inventions such as the power looms and spinning jennies. Cloth could thus be manufactured more quickly and then sold to a market, which included all of its colonies. Cheap cotton could also be sold within the domestic mass market. In fact, Eric Hobsbawm (1968) sees the advancement in the cotton industry as the first phase of the Industrial Revolution in England. In the first phase, mechanisation and innovation were not as advanced nor was labour skilled, unlike the second phase, when capital goods began to play a significant role in the industrialisation process.

After England, Germany, France and Belgium too became industrialised, with help from the state, which encouraged and promoted mechanisation and industrialisation. In Germany, for example, the increased mechanisation, better use of coal for industries and the establishment of a strong railway system for smooth transportation of people and commodities, led to a later industrial revolution.

Some of the characteristics of the core areas where the Industrial Revolution took place included the existence of private property rights through which profits could be made and invested, wage labour and the state's support for economic growth and bourgeois interests. In all these countries, the vast profits made from industrialisation were at the expense of the poor peasants and proletariats and the exploitation of colonies and slaves. To ensure a constant supply of surplus from the peripheral region, the core region imposed economic policies on it which were a drain on the natural wealth of these colonies. By the turn of the twentieth century, the colonial powers realised that boosting the growth of industries in the semi-peripheral and peripheral regions would be a sound economic policy to extract more money from them for the sale of machines to them at a high price.

In addition to the core European states, Japan and the United States of America were other countries that had caught up in the degree of industrialisation achieved. Whereas until World War II, England had the lead as far as industrialisation and economic advancement were concerned, by the end of World War II, the United States had overtaken her in political and economic strength. For the core regions of the world, industrialisation was not just a precursor to great economic power and subsequently political muscle in the international arena, but to employment and stability in their own countries as well. During this time, the North West European countries like the UK, Germany and France, and the United States and Japan dominated the core region, Southern and Eastern European countries, Scandinavia and parts of Spain were partly industrialised and therefore in the semi-periphery, and countries of Asia (excluding Japan), Africa and Latin America, which were the market for the finished goods from the core areas and which were not industrialised or whose industries performed poorly, were relegated to the periphery.

Some of the accompanying changes included, as mentioned earlier, an increase in the urbanisation process, with more people migrating from the villages to towns and cities in the hope of landing jobs in the factories. Subsequently, there were changes in the family structure and residence patterns; with increased migration to the towns, families and communities broke into smaller units, and nuclear family units became the norm. Advances in the field of medicine and increased employment as a result of industrialisation, resulted in a population explosion in Europe in the latter half of the eighteenth century.

After 1815, industrialisation further strengthened the globalisation process by creating institutions and encouraging belief systems the world over, which gave an impetus to the capitalist mode of accumulation. For example, in the colonies, the English colonial regime pushed for a shift from traditional to modern English education to enlist qualified but cheap

Indian officials in their colonial administrative system, on the one hand, and to create persons who were Indian in blood but English in thoughts. In other words, around the world, the capitalist system, whose requirements included a secular and modern outlook, respect for the rights of the individual, the need for private property etc. got a stimulus through these actions of the core countries. Needless to say, globalisation, which spread the process of capitalist accumulation around the world, gained further momentum, if not acceptance.

2.7 Let Us Sum Up

- The term 'global village' is a jargon apt for usage in the global era that we live in. Coined by Marshall McLuhan (1962), it notes the integration of people all over the world through the speedy passing of information, via the medium of electronic technology.

- Political globalisation emphasises the global nature of political relations and the role of political organisations such as the United Nations, regional groupings such as the ASEAN and the NAFTA and even terrorist organisations such as the Al Qaeda, each of whose actions and policies has a global impact.

- Cultural globalisation refers to the global impact of cultural influences from particular nations – such as food, music, television shows, art and aesthetics and films.

- According to Wallerstein, political units such as 'empires, city-states and nation-states'.

- According to Wallerstein, the world was divided into three main regions, the core, the periphery and the semi-periphery, based on an unequal division of labour.

- Between the seventeenth and nineteenth centuries (1640-1815), North Western Europe witnessed more changes. One of the most significant of these was the Industrial Revolution, when North Western European countries transformed from a predominantly agricultural to a predominantly industrial mode of production.

2.8 GLOSSARY

Core: the core includes major world powers and the country that contain much of the wealth of the planet

Periphery: it has those countries that are not reaping the benefit of global wealth and globalization.

Semi Periphery: semi-periphery countries are the industrializing, mostly capitalist countries which are positioned between the periphery and core countries. Semi-peripheral countries contribute to the manufacturing and exportation of a variety of goods.

2.9 CHECK YOUR PROGRESS: ANSWER KEYS

Ans to Q1- Cultural globalisation refers to the global impact of cultural influences from particular nations – such as food, music, television shows, art and aesthetics and films.

Ans to Q2- Max Weber was wrote the book 'Protestant *Ethic and the Spirit of Capitalism'*.

2.10 MODEL QUESTIONS

1. Briefly discuss about the historical emergence of globalisation.
2. Explain the Wallerstein's world system theory.
3. How did the expansion of the European economy affect the rest of the world?

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UNIT -3 LIBERALISATION & PRIVATISATION: MEANING AND CHARACTERISTIC

Structure

3.1 Introduction
3.2 Learning Objectives
3.3 Liberalisation: Meaning and Approaches
3.4 Features of Liberalisation
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3.1 INTRODUCTION

This unit focus on various meaning and approaches of liberalisation and privatisation. Liberalisation refers to a relaxation of government restrictions in the areas of social, political and economic policies. Privatization is closely associated with the phenomena of globalization and liberalization. Privatization is the transfer of control of ownership of economic resources from the public sector to the private sector. The present unit also deal with major features, forms, objectives and impact of both liberalisation and privatisation in India.

3.2 LEARNING OBJECTIVES

After reading this unit, you will be able to;

- Understand the concept of Liberalisation , features and objectives
- To know the various positive and negative Impacts of Liberalisation in India
- To define the concept of privatisation and its various forms
- Explain the major features and objectives of privatisation
- To study the advantages of privatisation

3.3 LIBERALISATION: MEANING AND APPROACHES

Liberalisation is the process or means of the elimination of the control of the state over economic activities. It provides greater autonomy to the business enterprises in decision-making and eliminates government interference. The economy is thrown open and the best goods and services compete in the market and the consumer has a choice and monopolies disappear. In India, economic liberalisation is initiated in 1991 with the goal of making the economy more market-oriented and expanding the role of private and foreign investment.

Economic liberalisation is relaxing the government regulations in a country to allow the private sector companies to operate business transactions with comparatively fewer restrictions. Economic liberalization generally refers to allowing more private entities participate in economic activity, and capital market liberalization refers to reducing restrictions imposed on debt and equity markets. Thus, liberalisation provides ample freedom to the industrialist/businessman to establish industry, trade or commerce either in his country or abroad; free exchange of capital, goods, service and technologies between countries. Globalisation cannot take place without liberalisation.

As pointed out in the beginning, rules and laws which were aimed at regulating the economic activities became major hindrances in growth and development. Liberalisation was introduced to put an end to these restrictions and open various sectors of the economy. Though a few liberalisation measures were introduced in 1980s in areas of industrial licensing, export-import policy, technology up gradation, fiscal policy and foreign investment, reform policies initiated in 1991 were more comprehensive. Let us study some important areas, such as the industrial sector, financial sector, tax reforms, foreign exchange markets and trade and investment sectors which received greater attention in and after 1991.

Deregulation of Industrial Sector: In India, regulatory mechanisms were enforced in various ways (i) industrial licensing under which every entrepreneur had to get permission from government officials to start a firm, close a firm or decide the amount of goods that could be produced (ii) private sector was not allowed in many industries (iii) some goods could be produced only in small-scale industries, and (iv) controls on price fixation and distribution of selected industrial products. The reform policies introduced in and after 1991 removed many of these restrictions. Industrial licensing was abolished for almost all but product categories — alcohol, cigarettes, hazardous chemicals, industrial explosives, electronics, aerospace and drugs and pharmaceuticals. The only industries which are now reserved for the public sector are a part of defence equipment, atomic energy generation and railway transport. Many goods produced by small-scale industries have now been dereserved. In many industries, the market has been allowed to determine the prices.

Financial Sector Reforms: Financial sector includes financial institutions, such as commercial banks, investment banks, stock exchange operations and foreign exchange market. The financial sector in India is regulated by the Reserve Bank of India (RBI). You may be aware that all banks and other financial institutions in India are regulated through various norms and regulations of the RBI. The RBI decides the amount of money that the banks can keep with themselves, fixes interest rates, nature of lending to various sectors, etc. One of the major aims of financial sector reforms is to reduce the role of RBI from regulator to facilitator of financial sector. This means that the financial sector may be allowed to take decisions on many matters without consulting the RBI.

The reform policies led to the establishment of private sector banks, Indian as well as foreign. Foreign investment limit in banks was raised to around 74 per cent. Those banks which fulfil certain conditions have been given freedom to set up new branches without the approval of the RBI and rationalise their existing branch networks. Though banks have been given permission to generate resources from India and abroad, certain managerial aspects have been retained with the RBI to safeguard the interests of the account-holders and the nation. Foreign Institutional Investors (FII), such as merchant bankers, mutual funds and pension funds, are now allowed to invest in Indian financial markets.

Tax Reforms: Tax reforms are concerned with the reforms in the government's taxation and public expenditure policies, which are collectively known as its fiscal policy. There are two types of taxes: direct and indirect. Direct taxes consist of taxes on incomes of individuals, as well as, profits of business enterprises. Since 1991, there has been a continuous reduction in the taxes on individual incomes as it was felt that high rates of income tax were an important reason for tax evasion. It is now widely accepted that moderate rates of income tax encourage savings and voluntary disclosure of income. The rate of corporation tax, which was very high earlier, has been gradually reduced. Efforts have also been made to reform the indirect taxes, taxes levied on commodities, in order to facilitate the establishment of a common national market for goods and commodities.

In 2016, the Indian Parliament passed a law, Goods and Services Tax Act 2016, to simplify and introduce a unified indirect tax system in India. This law came into effect from July 2017. This is expected to generate additional revenue for the government, reduce tax evasion and create 'one nation, one tax and one market'. Another component of reform in this area is simplification. In order to encourage better compliance on the part of taxpayers, many procedures have been simplified and the rates also substantially lowered.

Foreign Exchange Reforms: The first important reform in the external sector was made in the foreign exchange market. In 1991, as an immediate measure to resolve the balance of payments crisis, the rupee was devalued against foreign currencies. This led to an increase in the inflow of foreign exchange. It also set the tone to free the determination of rupee value in the foreign exchange market from government control. Now, more often than not, markets determine exchange rates based on the demand and supply of foreign exchange.

Trade and Investment Policy Reforms: Liberalisation of trade and investment regime was initiated to increase international competitiveness of industrial production and also foreign investments and technology into the economy. The aim was also to promote the efficiency of local industries and adoption of modern technologies.

3.4 FEATURES OF LIBERALISATION

Following are some the features of liberalisation that was initiated as a part of economic reform of 1991;

- Abolition of the previously existing license in the country. License or permit Raj is a complicated system of regulations, licenses and restrictions that were imposed to run and set up business between 1947 and 1990.
- Reduction of interest rates and tariffs.
- Curbing monopoly of the public sector from various areas of our economy.
- Approval of foreign direct investment in various sectors.

Economic liberalisation in India integrated the above features and in general waived off several restriction to become private sector friendly.

3.4.1 Objectives of liberalisation in India:

The primary objectives of initiating liberalisation in India can be summed up as follows;

1. To solve India’s impending balance of payment crisis.
2. To boost the private sector’s participation in the development of India’s economy.
3. To increase the volume of foreign direct investment in India’s businesses.
4. To introduce competition between India’s domestic businesses.
5. To maximize India’s economic potential by encouraging multinational and private companies to expand.
6. To usher in globalisation for the Indian economy.
7. To regulate export and import and promote foreign trade.

3.5 IMPACTS OF LIBERALISATION IN INDIA

3.5.1 Positive impacts of liberalisation in India

1) **Free flow of capital:** Liberalisation has improved flow of capital into the country which makes it inexpensive for the companies to access capital from

investors. Lower cost of capital enables to undertake lucrative projects which they may not have been possible with a higher cost of capital pre-liberalisation, leading to higher growth rates.

2) **Stock Market Performance:** Generally, when a country relaxes its laws, taxes, the stock market values also rise. Stock Markets are platforms on which Corporate Securities can be traded in real time. Impact of FDI in Banking sector: Foreign direct investment allowed in the banking and insurance sectors resulted in decline of government's stake in banks and insurance firms.

3) **Political Risks Reduced:** Liberalisation policies in the country lessen political risks to investors. The government can attract more foreign investment through liberalisation of economic policies. These are the 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 laws.

4) **Diversification for Investors:** In a liberalised economy, Investors gets benefit by being able to invest a portion of their portfolio into a diversifying asset class.

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

3.5.2 Negative impacts of liberalisation in India

1) **Destabilization of the economy:** Tremendous redistribution of economic power and political power leads to Destabilizing effects on the entire Indian economy. Threat from Multinationals: Prior to 1991 MNC's did not play much role in the Indian economy. In the pre-reform period, there was domination of public enterprises in the economy. On account of liberalisation, competition has increased for the Indian firms. Multinationals are quite big and operate in several countries which has turned out a threat to local Indian Firms.

2) **Technological Impact:** Rapid increase in technology forces many enterprises and small scale industries in India to either adapt to changes or close their businesses.

3) **Mergers and Acquisitions:** Acquisitions and mergers are increasing day-by-day. In cases where small companies are being merged by big companies, the employees of the small companies may require exhaustive re-skilling. Re-skilling duration will lead to non-productivity and would cast a burden on the capital of the company.

4) **Impact of FDI in banking sector:** Foreign direct investment allowed in the banking and insurance sectors resulted in decline of government's stake in banks and insurance firms.

Check your progress 3.1

Note:

i. Write your answer in the space given below
ii. Compare your answer with the one given at the end of this Unit.

Q1. Mention any two positive impact of liberalisation in India.

Ans-

3.6 PRIVATISATION

Privatisation refers to the participation of private entities in businesses and services and transfer of ownership from the public sector (or government) to the private sector as well. Privatization is the transfer of control of ownership of economic resources from the public sector to the private sector. It means a decline in the role of the public sector as there is a shift in the property rights from the state to private ownership. The public sector had been experiencing various problems, since planning, such as low efficiency and profitability, mounting losses, excessive political interference, lack of autonomy, labour problems and delays in completion of projects. Hence to remedy this situation with Introduction of NIP'1991. Another term for privatization is Disinvestment. The objectives of disinvestment were to raise resources through sale of PSUs to be directed towards social welfare expenditures, raising efficiency of PSUs through increased competition, increasing consumer satisfaction with better quality goods and services, upgrading technology and most importantly removing political interference

3.6.1 The main aspects of privatization in India are as follows;

1. Autonomy to Public sector: Greater autonomy was granted to nine PSUs referred to as 'navaratnas' (ONGC, HPCL, BPCL, VSNL, BHEL) to take their own decisions.

2. Dereservation of Public Sector : The number of industries reserved for the public sector were reduced in a phased manner from 17 to 8 and then to only 3 including Railways, Atomic energy, Specified minerals. This has opened more areas of investment for the private sector and increased competition for the public sector forcing greater accountability and efficiency.

3. Disinvestment Policies: Till 1999-2000 disinvestment was done basically through sale of minority shares but since then the government has undertaken

strategic sale of its equity to the private sector handing over complete management control such as in the case of VSNL , BALCO .etc

However, there are some methods of Privatisation:

1. Public auction
2. Direct negotiations
3. Public tender
4. Transfer of control of State or municipally controlled enterprises
5. Lease with a right to purchase

3.7 FORMS OF PRIVATIZATION

- **Denationalization or Strategic Sale**: When 100% government ownership of productive assets is transferred to the private sector players, the act is called denationalization.

- **Partial Privatization or Partial Sale**: When private sector owns more than 50% but less than 100% ownership in a previously construed public sector company by transfer of shares, it is called partial privatization. Here the private sector owns the majority of shares. Consequently, the private sector possesses substantial control in the functioning and autonomy of the company.

- **Deficit Privatization or Token Privatization:** When the government disinvests its share capital to an extent of 5-10% to meet the deficit in the budget is termed as deficit privatization.

3.8 FEATURES OF PRIVATISATION

- **Transfer of ownership:** In privatisation, ownership of a company, under taking or property is transferred to private sectors.

- **Lack of Government Interference:** Privatisation reduces indulgence and interference of the state in the activity of a company.

- **Economic Democracy:** Privatisation dilutes state monopoly and allows private companies to participate in economic activities more democratically

3.8.1 Objectives of Privatisation

- **Increased Competition:** State- run companies enjoy a monopoly and remain unperturbed. By competition in the market. Privatisation, accompanied by deregulation of the market, allows the private sector to engage more actively and encourage competition.

- **Improved efficiency:** State run companies are predominantly influenced by political intentions rather than economic wellbeing. It hinders the efficiency of public sector companies and prevents growth.

  Privatisation deters government influences and aids economic growth. As private bodies do not have a political agenda, they focus more on spurring growth and efficiency within an organisation for greater generation of revenues.

- **Promote market dynamism:** privatisation liberates the economy from state control. Without government regulation dictating market progression, the market operates organically. Due to lack of government interference, the market becomes more dynamic and follows integral economic values of demand and supply.

- **Revenue from the sale of a company:** A primary objectives of privatisation is a one- time revenue generation for the government. Several governments have previously reported to privatisation when facing a fiscal crisis.

3.9 IMPACT OF PRIVATISATION

Positive Aspect-

1. **Improved efficiency-**The main argument for privatisation is that private companies have a profit incentive to cut costs and be more efficient. If you work for a government run industry managers do not usually share in any profits. However, a private firm is interested in making a profit, and so it is more likely to cut costs and be efficient. Since privatisation, companies such as BT and British Airways have shown degrees of improved efficiency and higher profitability.

2. **Lack of political interference-** It is argued governments make poor economic managers. They are motivated by political pressures rather than sound economic and business sense. For example, a state enterprise may employ surplus workers which is inefficient. The government may be reluctant to get rid of the workers because of the negative publicity involved in job losses. Therefore, state-owned enterprises often employ too many workers increasing inefficiency.

3. **Short term view-** A government many think only in terms of the next election. Therefore, they may be unwilling to invest in infrastructure improvements which will benefit the firm in the long term because they are more concerned about projects that give a benefit before the election. It is easier to cut public sector investment than frontline services like healthcare.

4. **Shareholders-** It is argued that a private firm has pressure from shareholders to perform efficiently. If the firm is inefficient then the firm could be subject to a

takeover. A state-owned firm doesn't have this pressure and so it is easier for them to be inefficient.

5. **Increased competition-** Often privatisation of state-owned monopolies occurs alongside deregulation – i.e. policies to allow more firms to enter the industry and increase the competitiveness of the market. It is this increase in competition that can be the greatest spur to improvements in efficiency. For example, there is now however, privatisation doesn't necessarily increase competition; it depends more competition in telecoms and distribution of gas and electricity. on the nature of the market. e.g. there is no competition in tap water because it is a natural monopoly. There is also very little competition within the rail industry.

6. **Government will raise revenue from the sale-** Selling state-owned assets to the private sector raised significant sums for the UK government in the 1980s. However, this is a one-off benefit. It also means we lose out on future dividends from the profits of public companies.

Negative Aspect-

1. **Natural monopoly-** A natural monopoly occurs when the most efficient number of firms in an industry is one. For example, tap water has very significant fixed costs. Therefore there is no scope for having competition amongst several firms. Therefore, in this case, privatisation would just create a private monopoly which might seek to set higher prices which exploit consumers. Therefore it is better to have a public monopoly rather than a private monopoly which can exploit the consumer.

2. **Public interest-** There are many industries which perform an important public service, e.g., health care, education and public transport. In these industries, the profit motive shouldn't be the primary objective of firms and the industry. For example, in the case of health care, it is feared privatising health care would mean a greater priority is given to profit rather than patient care. Also, in an industry like health care, arguably we don't need a profit motive to improve standards. When doctors treat patients, they are unlikely to try harder if they get a bonus.

3. **Government loses out on potential dividends-** Many of the privatised companies in the UK are quite profitable. This means the government misses out on their dividends, instead going to wealthy shareholders.

4. **Problem of regulating private monopolies-** Privatisation creates private monopolies, such as the water companies and rail companies. These need regulating to prevent abuse of monopoly power. Therefore, there is still need for government regulation, similar to under state ownership.

5. **Fragmentation of industries-** In the UK, rail privatisation led to breaking up the rail network into infrastructure and train operating companies. This led to areas where it was unclear who had responsibility. For example, the Hatfield rail crash was blamed on no one taking responsibility for safety. Different rail companies have increased the complexity of rail tickets.

6. **Short-termism of firms-** As well as the government being motivated by short term pressures, this is something private firms may do as well. To please shareholders they may seek to increase short term profits and avoid investing in long term projects. For example, the UK is suffering from a lack of investment in new energy sources; the privatised companies are trying to make use of existing plants rather than invest in new ones.

Check your progress 3.2
Note:
i. Write your answer in the space given below
ii. Compare your answer with the one given at the end of this Unit.

Q1. Mention the methods of privatisation.
Ans-

3.10 LET US SUM UP

- Liberalisation is a process to removing controls systems in order to encourage economic development. The economy is thrown open and the best goods and services compete in the market and the consumer has a choice and monopolies disappear.
- Economic liberalisation is relaxing the government regulations in a country to allow the private sector companies to operate business transactions with comparatively fewer restrictions.
- In India, economic liberalisation is initiated in 1991 with the goal of making the economy more market-oriented and expanding the role of private and foreign investment.
- Privatization is the transfer of control of ownership of economic resources from the public sector to the private sector.
- Another term for privatization is Disinvestment. The objectives of disinvestment were to raise resources through sale of PSUs to be directed towards social welfare expenditures, raising efficiency of PSUs through increased competition,

increasing consumer satisfaction with better quality goods and services, upgrading technology and most importantly removing political interference.

3.11 GLOSSARY

Liberalisation- Liberalisation is the process or means of the elimination of the control of the state over economic activities

Denationalization- Denationalization is the process of transferring an asset from public ownership specifically ownership by a national government to private ownership and operation.

Disinvestment- Disinvestment refers to the use of a concerted economic boycott to pressure a government, industry, or company towards a change in policy, or in the case of governments, even regime change.

3.11 CHECK YOUR PROGRESS: KEYS ANSWER

Q1. Positive impacts of liberalisation in India

1) Free flow of capital: Liberalisation has improved flow of capital into the country which makes it inexpensive for the companies to access capital from investors. Lower cost of capital enables to undertake lucrative projects which they may not have been possible with a higher cost of capital pre-liberalisation, leading to higher growth rates.

2) Stock Market Performance: Generally, when a country relaxes its laws, taxes, the stock market values also rise. Stock Markets are platforms on which Corporate Securities can be traded in real time. Impact of FDI in banking sector: Foreign direct investment allowed in the banking and insurance sectors resulted in decline of government's stake in banks and insurance firms.

Q2. There are some methods of Privatisation;

- Public auction
- Direct negotiations
- Public tender
- Transfer of control of State or municipally controlled enterprises
- Lease with a right to purchase

3.12 MODEL QUESTIONS

- Define the meaning of liberalisation and discuss its important features.
- Mention the major objectives of liberalisation in India.

- Briefly explain the impact of liberalisation in India.
- What is Privatisation? Discuss its various forms.
- Mention both positive and negative aspects of privatisation.

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