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# Growth and Dimension of Liberalization in India: an insight

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**ABSTRACT:**
India has taken a series of measures to structure the economy and improve the BOP position. The new economic policy introduced changes in several areas. Since liberalization is a very broad term that usually refers to fewer government regulations and restrictions in the economy. Liberalization refers to the relaxation of the previous government restriction usually in area of social and economic policies. When government liberalized trade, it means it has removed the tariff, subsidies and other restriction on the flow of goods and services between the countries.Liberalization policies include partial or full privatisation of government institutions and assets, greater labour market flexibility, lower tax rates for businesses, less restriction on both domestic and foreign capital, open markets.The primary goals of economic liberalization are the free flow of capital between nations and the efficient allocation of resources and competitive advantages.

Liberalization refers to a relaxation of previous government restrictions, usually in such areas of social and economic policy. Economic liberalization is a very broad term that usually refers to fewer government regulations and restrictions in the economy in exchange for greater participation of private entities; the doctrine is associated with classical liberalism. Thus, liberalisation in short refers to "the removal of controls", to encourage economic development.Liberalization defined as any policy action which reduces the restrictiveness of controls either their complete removal or the replacement of a more restrictive set of controls with less restrictive ones.

**Keywords:** Liberalization, BOP, Economic Policy, GDP, FDI.

**Objectives of the study:**

- To study the concept of economic liberalization.
- To study the growth factor of liberalization.

**Liberalization in India:**

The liberalisation in India refers to ongoing economic reforms in India that started on 24 July 1991. After Independence in 1947, India adhered to socialist policies.The government of P. V. Narasimha Rao and his finance minister Manmohan Singh (currently the Prime Minister of India) started breakthrough reforms, although they did not implement many of the reforms the IMF wanted.The new neo-liberal policies included opening for international trade and investment, deregulation, initiation of privatisation, tax reforms, and inflation-controlling measures.

The reforms of 1991 carried out by a minority government proved sustainable. There exists a lively debate in India as to what made the economic reforms sustainable.The fruits of liberalisation reached their peak in 2007, when India recorded its highest GDP growth rate of 9%. With this, India became the second fastest growing major economy in the world, next only to China.The growth rate has slowed significantly in the first half of 2012.An Organisation for Economic Co-operation and Development (OECD) report states that the average growth rates 7.5% will double the average income in a decade and more reforms would speed up the pace.

**Reason for Liberalisation:**

A Balance of Payments (BOP) crisis in 1991 which pushed the country to near bankruptcy The Rupee devalued and economic reforms were forced upon India. India central bank had refused new credit and foreign exchange reserves had reduced to the point that India could barely finance three weeks' worth of imports no FDI & FII Investments.

**Financial liberalisation:**

There are three important outcomes of financial liberalization. The first is increased financial fragility, which the irrational boom in India's stock market epitomizes. Second is a deflationary macroeconomic stance, which adversely affects public capital formation and the objectives of promoting output and employment growth. Finally, there is a credit squeeze for the commodity-producing sectors and a decline in credit delivery to rural India and small-scale industry.

Various dimensions of financial liberalization are:

- Abolishing credit controls.
- Deregulating interest rates.
- Allowing free entry into the banking industry or moregenerally into financial services industry.
- Making banks autonomous.
- Putting banks in private ownership and Freeing international capital flows.

**Economic Liberalization and Indian Industrial Economic Growth:**

The process of liberalization and globalization has become adriving force for modern economic development throughout theworld. Both the developed and the developing economies have beeninitiating suitable reform measures in order to make their economiesmore vibrant and strategically competitive. In India, with a view togaining the twin goals of macroeconomic stabilization and structuraladjustments, the process of reforms – fiscal, financial, monetary andindustrial – was set in motion with great zeal in mid-1991. Owing tothese reforms the entire competitive structure of the economic systemhas witnessed a major change.

Before 1991, India’s economy was held back by the restrictive license permit quota raj. Some of the highest tariffs in the world, red tape in the domestic and foreign sectors, state control of banking and insurance, and public sector monopolies held the private sector back. A dramatic slew of pro-business reforms in 1991 “completely changed the direction of economic policies.

In developing countries, economic liberalization refers more to liberalization or further "opening up" of their respective economies to foreign capital and investments. Three of the fastest growing developing economies today; Brazil, China, and India, have achieved rapid economic growth in the past several years or decades after they have "liberalized" their economies to foreign capital.

Liberalisation as an inclusive economic growth strategy since 1992, income inequality has deepened in India with consumption among the poorest staying stable while the wealthiest generate consumption growth. As India's gross domestic product (GDP) growth rate became lowest in 2012-13 over a decade, growing merely at 5%, more criticism of India's economic reforms surfaced, as it apparently failed to address employment growth, nutritional values in terms of food intake in calories, and also exports growth - and thereby leading to a worsening level of current account deficit compared to the prior to the reform period.For 2010, India was ranked 124th among 179 countries in Index of Economic Freedom World Rankings, which is an improvement from the preceding year.

- The economic reforms of the 1990s swept away the oppressive licensing controls on industry and foreign trade, allowed the market to determine the exchange rate, drastically reduced protective customs tariffs, opened up to foreign investment, modernised the stock markets, freed interest rates, strengthened the banking system and began privatisation of public enterprises.
- Airline, telecom, TV broadcast and insurance were opened for private players. The consequences have been far-reaching.
- Established companies like Tata, Reliance and HLL reinvented themselves to meet competition. This led to larger advertising budgets, which sustained the media explosion (print and TV) of the past decade that has helped to mould a new mindset.
- The post-crisis reforms of the early 1990s restored (then improved) the growth momentum of the 1980s and ensured a quarter century of nearly 6 per cent economic growth. With average living standards rising at almost 4 per cent a year, the poverty ratio dropped below a quarter of the population and the catch phrase of "a rising middle class" gained substance. Today, over a 100 million Indians live in households with incomes between Rs.2 lakh and Rs.10 lakh a year.
- The strong improvement in the country's external finances and sustained growth over 25 years also raised India's economic and political profile in the world. In a real sense, the 1990s' economic liberalisation freed India's foreign and defence policies from economic weakness and dependence on foreign aid. A more assertive strategic policy became possible.
- An exchange rate system which is free of the locative restrictions of trade.
- An autonomous, competitive and streamlined public enterprise sector geared to the provision of essential infrastructure goods and services, the development of key natural resources and areas of strategic concern.

- Financial Sector Reform: Financial Sector Reforms refers to the deregulation of domestic financial markets and the liberalization of the capital account Financial Sector Reforms are:- Reform in Banking Sector Reform in Stock Market Reform in Insurance.
- Industrial Sector Reform: Industrial Sector was among the first sectors to be liberalized in India in a series of measures Industrial licensing has been abolished except in a small number of sectors where it has been retained on strategic considerations Industrial Sector Reforms are:-Abolition of industrial licensing Restriction were removed on expansion Reduction in the reservation of public sector
- Trade policy allowing domestic providers (of goods and/or services) to compete more freely in world markets and foreign providers to compete more freely in domestic markets Trade Sector Reform :-Elimination of Import Licensing Rationalization of Tariff Structure Adoption of Flexible Exchange rate Trade Sector Reform
- Fiscal Sector Reform India’s fiscal sector reforms help to raise the rate of savings and investment in India. This further helps to enhance the productivity of public expenditures India has established itself as one of the fastest growing economies in the world. India is also advancing towards the economical growth and improvement in literacy.
- Impact of these Reforms Annual growth in GDPA rate of growth that will double average income in a decade Rapid Growth in all sectors Exports of information technology enabled services particularly strong
- Major M&A Deals Undertaken Abroad by India Inc.Tata Steel buys Corus PlcUSD 12.1 billion Hindalco acquired Novelis Inc.USD 6 billion Essar Steel acquired Algoma Steel USD 1.58 billion Suzlon Energy Ltd. acquires REpowerVideocon Industries acquired Daewoo Electronics Corporation LimitedUSD 1.6 billion USD 730 million
- Vodafone buys HutchUSD 11 billion Plans to spend on its development operations in India over the next four yearsUSD 1.7 billionPlans investment in private equity, real estate, and private wealth managementUSD 1 billionAditya Birla Group increased its stake in Idea Cellular by acquiring 48.14-percent stakeUSD 0.98 billion Renault, Nissan and Mahindra & Mahindra has initiated a Greenfield automobile plant project in Chennai.USD 0.905 billionMylan Laboratories acquired a majority stake in Matrix laboratories USD 0.74 billion.

**Findings:**

- The domestic economy has now reached a threshold where for better utilization of resources the benefits of the market forces can be harnessed, by proper market-friendly macro and micro- economic policies helping both in higher growth and more equity.
- The present boom of economic reforms in India-those started in the nineties- marks both continuity and a break with India's post-independence development strategy.
- The major changes in India's economic reforms fall broadly under five heads-industrial, trades, financial, fiscal and monetary.
- Sustainable economic growth has to originate with efficiency and productivity growth brought about through the expansion of investment and exports.

**Suggestions:**

- The State Government to take steps to improve their fiscal performance and to streamline the working of the enterprises.
- The large number of people in the country living on the poverty line. To make any reform process socially acceptable a poverty alleviation programme must be introduced.

## CONCLUSION:

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

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