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IMPACT OF LIBERALIZATION ON INDIAN ECONOMY

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ABSTRACT

Liberalization is the free movement of different services across boundaries. This movement is managed in a combined and incorporated manner. This paper will test the impact of liberalization in India's economy. Also, this paper will try to analyze the processes, pattern and characteristics of liberalization and its importance for any developing country. Moreover, it will try to observe the impact of economic and socially liberalization in the development process of Indian economy and positive and negative impact on Indian economy.

KEYWORDS*: Liberalization, Economy, Impact, Under Developing Country, Indian Economy.*

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Introduction

Globalization is a market where any sellers are free to come and sale their product and services and set wherever price they want according to market. In this market there are no boundations and control of their products price margin this is called globalised market. In globalization whole world like a village any one can sale and buy in this market this is a globalised trade. Because of Globalization and liberalization anyone in general context referring to any country can participate to set up business acquire and merge industry, invest in share market of any company in India. In present scenario human have moved into a phase where everything is accessible without any complexity and trouble. If we were not able to buy any product from an online site it makes us angry and irritated. The world wasn't open to free trade and services or cross-border investments. It was possible around two to three decades ago when the concept of 'globalization' was introduced in the Indian economy far and wide. This allowed nations to bear out trade and other activities in an organized and systematic manner. India was one of the major nations which gained hugely post the introduction and achievement of globalization. The rise of foreign investment (FDI) in the corporate and scientific sectors is very much increasing in the nation. What is Globalization? Globalization is a movement of people services and product and goods across the world. This movement is managed in a combined and organized manner. More, it can be seen as a scheme to open the global economy as well as the associated growth of international trade (global). Hence, when the countries that were previously shut to foreign investment and trade have now burned down barriers.

According to Indian Economy Globalization and liberalization- Whenever we discuss about globalization Liberalization and the Indian economy, one name mostly strike our mind that is Dr. Manmohan Singh (Finance Minister). He was the finance minister in the 1990s when globalization, liberalization and privatization (GLP) was fully implemented and experienced in Indian economy. He was the leading man who framed the economic liberalization proposal. Since then, the Indian economy has gradually motivated ahead to become one of the supreme economic leaders in the world. After 1991, the rise in GDP that dropped to 13% in 1991 -92 extended momentum in the years 1992-2001. Moreover, the annual average rate of growth in GDP was recorded to be 6.1%. Furthermore, export growth skyrocketed to 20% in 1993-94. For 1994-95, the figures were recorded to be 18.4 per cent. Export growth data in recent year have been increasingly growing.

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India is the largest country in the Sub-Continent bounded by the Indian Ocean in the south, the Arabian Sea on the northwest and the Bay of Bengal in the southeast. It also borders with Pakistan to the west, Nepal, Bhutan and the Republic of China to the northeast and Bangladesh and Burma to the east. Indian economy mainly known for its rich culture highly diversity and rich geography, different languages and religion. Hinduism is practiced by the majority of the people (80.5 percent), with Muslim (13.4 percent) being the largest minority (CIA, 2011). Despite being an underdeveloped country after gaining independence from Great Britain in 1947and India has transformed its economy to become the fifth largest economy in the world with a gross national product (GDP) of 1.31 trillion USD in 2011(CIA, 2011). It is possible just because of economic liberalization, including industrial deregulation, privatization of state-owned enterprises and reduced controls on foreign trade and investment. India has accelerated its economic growth tremendously over the last two decades. In past year, India was primarily an agricultural based economy and the agricultural sector had been the heart of the Indian economy for several decades, according to data 57 percent of the GDP in 1950-1951and 49 percent from 1964-1965 (Panagariya, 2008, p. 12). nevertheless, after the 1970's, India started to see a steady decline in the share of agriculture in the Gross Domestic Product, falling from 57 percent in 1950-1951 to 21 percent in 2004-2005(Panagariya, 2008, p. 12). The transformation in the GDP was absorbed by the industrial and the service sector growth. Illebrale to other emerging countries, where economies transitioned from the agricultural to the industrial sector, India experienced bulk of its growth in GDP because of the service sector. Between 1950- 2005, the share of the industry sector in India grew only from 15 percent to 27 percent (Panagariya, 2008, p. 13). On the other side, the share of services grew from 28% to 52% in the same period (Panagariya, 2008, p. 13). The reason for this unconventional change is attributed to continuing restrictions surrounded on labor-intensive products. Until the 1990's, reservation of the vast majority of the labor-intensive products for small-scale enterprises kept large firms from entering their production despite removal of licensing (liberalization). Also, labor market inflexibilities, including the lack of rights to hire and fire employees, played a major disincentive for big firms to enter the local market. Service sector on the other hand was free of these regulations, which allowed the firms to operate more freely and grow quickly. Moreover, the lack of regulations in the service sector played a vital role in the economic growth of India. This paper aims to analyses the impact of government policies and trends in the liberalization process in India. In regulate to accomplish this work, the basic economic theories that address this liberalization issue must be understood.

Objectives of the Study

- To know the impact of liberalization.
- To analyze the positive and negative aspects of liberalization.

Discussion

Pre-Reform -Protectionism Dominance India gained its independence from Great Britain in 1947. After being ruled by the British for more than a century, a sense of nationalism had taken over the country. Foreigners were seen in a negative way and India was looking forward to being isolated from the rest of the world. In was famously known as the Swadeshi movement, there was a strong belief that in India could make and produce everything in independently and become self– dependent and use all resources for development (Kulkarni, 2010, p. 368). If Indian economy produce everything then the problems like poverty and unemployment resolve easily. Jawaharlal Nehru (Prime Minister of India 1947-1964) led this nationalist movement. Nehru envisioned India to become a socialistic and independent society with a particular emphasis on development of heavy industries such as defense, railways, airplanes and guns (second five year plan). In a speech delivered at the Federation of Indian Chamber of Commerce and Industry in 1953, Nehru Ji emphasized the importance of developing heavy industries internally. He explained that if India did not develop heavy industries internally, it would have to import them from abroad. For Indian economy, importing from abroad was to be the slaves of foreign countries (Panagariya, 2008, p. 25). Nehru also emphasized that socially and economic independence was critical to maintaining political independence at ground level. The main objective was to promote a production structure through planning and industrialization, which would eliminate the needs for imports and free the country from the threat of closure of the world markets. This nationalistic vision had overshadowed the benefits of foreign direct investment. Multinational corporations were seen as exploitative resources that operated in developing country only for their economic profits and they were also seen as companies that benefited from uneducated, unskilled and cheap labor but did not invest back their profits in the developing country for their socially economically development. Because of the reason foreign investment in India during this period was negligible. Maximize rates of tariffs were implemented to decline foreign imports as India pushed for segregation.

India finally started having some change in the 1980s. While the agriculture sector still accounted for the mainstream of the GDP, service and industrial sectors started to boom rapidly. The economy started to prosper slowly but more steadily than the earlier decades. The importance of liberalization of the economy was realized by the government of Rajiv Gandhi which led to reduction in tariff rates in the early 1980s and more progress was made in the sector of international trade in the late 1980s.

Post Reform Period- The post 1991 India saw tremendous economic growth. In 1994, India enjoyed a five point nine percent GDP growth, while the inflation declined from 13.7 percent in 1992 to 8.4 in 1994. The drop in inflation rate can be explained by higher interest rates. The unemployment numbers were alarming due to numerous factors. First, it is common to have high unemployment when a country is in the first stages of transitioning from an agricultural sector economy to a modern sector economy. Also, India suffers from under employment problems due to extreme illiteracy and poverty (Kulkarni, 2010, p. 372). There are other problems such as illiterate, unskilled and imperfect labor markets and data shown that may impact the high unemployment numbers. Apart from these problems, India enjoyed very high economic growth in the 1990s. By the mid-1990s, the policy makers were convinced that for India to economically grow, it had to be through liberalization, globalization and privatization of markets and trade. This growth was initially seen in bigger cities of Pune, Hydrabad, Bangloor but by mid-2000s, it had spread all across the country. It is evident that this drastic turnaround of the Indian economy, economy in the 1990s was due to liberalization. This can be further analyzing by comparing the pre and post-reform International trade patterns in Indian economy.

Impact of Liberalization on Indian Economy

- **Positive Impact of Liberalization**
  - The flow of capital increasing day to day because of Liberalization which makes it low-cost for the companies to access capital from investors.
  - Opening of Special Economic Zones so the availability of new jobs has been quite effective and Export Processing Zones (EPZs) are also established employing thousands of people.
  - The government can attract more foreign investment through liberalization of economic policies. Liberalization policies in the country lessen political risks to investors.
  - In a liberalized economy, Investors gets benefit by being able to invest a portion of their portfolio into a diversifying securities and assets.
- **Negative Impact of Liberalization**
  - Indian economy growing tremendous but redistribution of economic power and political power leads to destabilizing effects on the entire Indian economy.
  - Increasing FDI in the banking and insurance sectors resulted in decline of government's stake in banks and insurance firms.
  - Prior to 1991 MNC's did not play much role in the Indian economy. But after pre-reform period, there was domination of public enterprises in the economy.
  - Speedy increase in technology forces many enterprises and small scale industries in India to either adapt to changes or close their businesses.
  - Acquisitions and mergers are increasing day-by-day and big companies merging small industries because of that the employees of the small companies may require exhaustive re-skilling.

Analysis and Conclusion

Most of the developing countries, India has experienced the fastest economic growth. Despite being considered a undeveloped and poor country after its independence in 1947, India has bounced back and become one of the most powerful rising economies in the world. Various policies like globalization, liberalization and privatization (GLP) were implemented after 1991 that were key to India's economic success. This paper explained that international trade and openness of the economy increased the overall level of output leading to a faster economic growth. Between 1950s -1980's, protectionism swept the shores of India. It realized that restriction of trade had a negative effect on the economic growth of India. And, policy makers realized that if we want India will grow like other countries then it had to open its borders. This decision proved to be true as India's growth rate between 1988-2006 was 6 percent annually which was more than 2 % then reforms period. Opening the economy to the world market has been the reason for India's impressive success. This openness increased the rate of investment at home, which in turn led to a high economic growth just like Solow had predicted. This will provide further investment opportunities internally and help the country to achieve an unprecedented economic success. If we are discussing globalization and liberalization**,** then talking about the negative effects is also important in Indian economy. It is concluded that liberalization is need of time but still there is need to do work more in this area.

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