

A STUDY ON THE EFFECTS OF LIBERALIZATION ON INDIAN ECONOMY

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Abstract

When a nation becomes liberalized, the monetary effects can be profound for the nation and for investors. Monetary liberalization refers to a country "opening up" to the rest of world with regards to trade, regulations, taxation and other areas that generally affect business in the country. As a general rule, you can determine to what degree a country is liberalized economically by how easy it is to invest and do business in the country. All developed (first world) countries have already gone through this liberalization process, so the focus in this article is more on the developing and emerging countries. 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, in part, from having "liberalized" their economies to foreign capital.

Many countries nowadays, particularly those in the third world, arguably have no choice but to also "liberalize" their economies in order to remain competitive in attracting and retaining both their domestic and foreign investments. This is referred to as the TINA factor, standing for "there is no alternative".

Key words: Liberalisation, Economic reforms, Investment, Financial sector, Industries, Society.

Meaning and background of liberalization

"Economic liberalization is the lessening of government regulations and restrictions in an economy in exchange for greater participation by private entities; the doctrine is associated with classical liberalism. Thus, liberalization in short is "the removal of controls" in order to encourage economic development".

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For example, in 1991, India had no choice but to implement economic reforms.

Similarly, in the Philippines, the contentious proposals for Charter Change include amending the economically restrictive provisions of their 1987 constitution.

"Liberalization had its impact on various sectors including Agricultural, Industrial, Financial, Health sector and many others. It was only after the LPG policy i.e. Liberalization, Privatization and Globalization launched by the then Finance Minister Man Mohan Singh that India saw its development in various sectors".

Arrival of New Monetary Policy -

After agony a huge monetary and financial crisis our previous Government brought a new policy which is known

as Liberalization, Privatization and Globalization Policy (LPG Policy) also known as New Economic Policy, 1991 as it was a measure to come out of the crisis that was going on at that time

The following measures were taken to liberalize and globalize the economy:

1. Devaluation: To solve the balance of payment problem Indian currency were devaluated by 18 to 19%.
2. Disinvestment: To make the LPG model smooth many of the public sectors were sold to the private sector.
- 3 Allowing Foreign Direct investment
4. NRI Scheme: The facilities which were available to foreign investors were also given to NRI's.

The New Economic Policy (NEP-1991) introduced changes in the areas of trade policies, monetary & financial policies, fiscal & budgetary policies, and pricing & institutional reforms. "The salient features of NEP-1991 are (i) liberalization (internal and external), (ii) extending privatization, (iii) redirecting scarce Public Sector Resources to Areas where the private sector is unlikely to enter, (iv) globalization of economy, and (v) market friendly state".

Governments all across the world has lost their capacity to regulate and ward of against malicious, false, sensitive information and content. "Rise of Islamic State demonstrates that, IT revolution has helped development of global Terrorist links more than anything". Moreover, explicit content is freely available on web, to which unmaturred children have unrestricted access.

GDP growth rate-

India's annual average growth rate from 1990-2010 has been 6.6 % which is almost double than pre reforms era. GDP growth rate surpassed 5% mark in early 1980's. "This made impact of 1990's reforms on growth unclear. Some believe that 1980's reforms were precursor to LPG reforms. Other things apart, it is clear that 1980 reforms led to crash of economy in 1991, which was remedied by LPG reforms which were quite more comprehensive. It was IMF loan which gave government to adjust its economy. It was largest ever loan given by IMF. Initially there were global doubts on India's credibility for loan, but India has been so far a disciplined borrower".

Agricultural Sector:

Agricultural Sector is the mainstay of the rural Indian economy around which socio-economic privileges and deprivations revolve and any change in its structure is likely to have a corresponding impact on the existing pattern of Social equity. The liberalization of India's economy was adopted by India in 1991. Facing a severe economic crisis, India approached the IMF for a loan, and the IMF granted what is called a 'structural adjustment' loan, which is a loan with certain conditions attached which relate to a structural change in the economy. Essentially, the reforms sought to gradually phase out government control of the market (liberalization), privatize public sector organizations (privatization), and reduce export subsidies and import barriers to enable free trade (globalization).

. Industrial Sector:

Effects of Globalization on Indian Industry started when the government opened the country's markets to foreign investments in the early 1990s. Globalization of the Indian Industry took place in its various sectors such as steel, pharmaceutical, petroleum, chemical, textile, cement, retail, and

Globalization means the dismantling of trade barriers between nations and the integration of the

nations' economies through financial flow, trade in goods and services, and corporate investments between nations. Globalization has increased across the world in recent years due to the fast progress that has been made in the field of technology especially in communications and transport. The government of India made changes in its economic policy in 1991 by which it allowed direct foreign investments in the country. The benefits of the effects of globalization in the Indian Industry are that many foreign companies set up industries in India, especially in the pharmaceutical, BPO, petroleum, manufacturing, and chemical sectors and this helped to provide employment to many people in the country. This helped reduce the level of unemployment and poverty in the country. Also the benefit of the Effects of Globalization on Indian Industry are that the foreign companies brought in highly advanced technology with them and this helped to make the Indian Industry more technologically advanced.

The negative Effects of Globalization on Indian Industry are that with the coming of technology the number of labor required decreased and this resulted in many people being removed from their jobs. This happened mainly in the pharmaceutical, chemical, manufacturing, and cement industries.

Financial Sector:

Reforms of the financial sector constitute the most important component of India's programme towards economic liberalization. The recent economic liberalization measures have opened the door to foreign competitors to enter into our domestic market. Innovation has become a must for survival. Financial intermediaries have come out of their traditional approach and they are ready to assume more credit risks. As a consequence, many innovations have taken place in the global financial sectors which have its own impact on the domestic sector also. The emergences of various financial institutions and regulatory bodies have transformed the financial services sector from being a conservative industry to a very dynamic one. In this process this sector is facing a number of challenges. In this changed context, the financial services industry in India has to play a very positive and dynamic role in the years to come.. by offering many innovative products to suit the varied requirements of the millions of prospective investors spread throughout the country. Reforms of the financial sector constitute the most important component of India's programme towards economic liberalization.

Growth in financial services (comprising banking, insurance, real estate and business services), after dipping to 5.6% in 2003-04 bounced back to 8.7% in 2004-05 and 10.9% in 2005-06. The momentum has been maintained with a growth of 11.1% in 2006-07. Because of Globalization, the financial services industry is in a period of transition. Market shifts, competition, and technological developments are ushering in unprecedented changes in the global financial services industry.

Export and Import:

India's Export and Import in the year 2001-02 was to the extent of 32,572 and 38,362 million respectively. Many Indian companies have started becoming respectable players in the International scene. Agriculture exports account for about 13 to 18% of total annual of annual export of the country. In 2000-01 Agricultural products valued at more than US \$ 6million were exported from the country 23% of which was contributed by the marine products alone. Marine products in recent years have emerged as the single largest contributor to the total agricultural export from the country accounting for over one fifth of the total agricultural exports. Cereals (mostly basmati rice and non-basmati rice), oil seeds, tea and coffee are the other prominent products each of which accounts from nearly 5 to 10% of the countries total agricultural exports.

Stock Markets

Another major development is one of Stock Markets. Stock Markets are platforms on which Corporate Securities can be traded real time. It provides mechanisms for constant price discovery, options for investors to exit from or enter into investment any time. These are back bone of free markets these days and

there is robust trade going all over the world on stock exchanges. Their Importance can be estimated from the fact that, behavior of stock markets of a country is strongest indicator of health and future prospects of an economy.

These markets has thrown open wide array of associated services such as Investment Banking, Asset Management, Underwriting services, Hedging advice etc. These collectively employ lakhs of people all over India. Similarly there are commodities market which provides avenues for investment and sale of various eligible commodities.

Telecom Sector

Conventionally, Telecom sector was a government owned monopoly and consequently service was quite substandard. After reforms, private telecom sector reached pinnacle of success. And Indian telecom companies went global. However, corruption and rent seeking marred growth and outlook of this sector.

Entry of modern Direct to Home services saw improvements in quality of Television services on one hand and loss of livelihood for numerous local cable operators.

Education and Health Sector

It should be noted that food (Agriculture), Health and education (and to lesser extent banking) are among basic necessities, which every human being deserves and can't do without. Unfortunately, in developing countries there is market failure in all these sectors and majority of people can't afford beyond a certain limit (or can't afford at all). Concept of free markets, globalization, liberalization etc. fails here miserably. Free markets provide goods and services to people who can afford paying for them, not to those who deserve and need these.

GDP growth rate - India's annual average growth rate from 1990-2010 has been 6.6 % which is almost double than pre reforms era. GDP growth rate surpassed 5% mark in early 1980's. This made impact of 1990's reforms on growth unclear. Some believe that 1980's reforms were precursor to LPG reforms. Other things apart, it is clear that 1980 reforms led to crash of economy in 1991, which was remedied by LPG reforms which were quite more comprehensive. It was IMF loan which gave government to adjust its economy. It was largest ever loan given by IMF. Initially there were global doubts on India's credibility for loan, but India has been so far a disciplined borrower. Industrial Growth Rate - Barring few years industrial growth rate has been not much impressive. Share of Industry still remains stagnantly low at 25%. Worst is that India has transitioned to be a service led economy, directly from an agrarian one. One expiation of this is end of policy of imports substitution which derived industrial growth upto 1990. Foreign companies got free access to Indian markets and made domestic products uncompetitive. They obviously had better access to technology and larger economies of scale.

India's position also lagged on account of Research and innovation. Import substitution required certain degree of investment and efforts in domestic production. It was carried out even when imports were cheaper. This resulted in good and better capacity building upto that time. This was coupled with constant technology denial by west, which further pushed government to spend on R&D. Technology Denial ended with liberalization and globalization. Till that time Indian Industry was better and modern than that of China. But in two decades China has surpassed India by huge margin in case of both Industry and innovation.

Impact on Service Sector:

In this case globalization has been boon for developing countries and bane for developed ones. "Due to historic economic disparity between two groups, human resources have been much cheaper in developing economies.

This was further facilitated by IT revolution and this all culminated in exodus of numerous jobs from developed countries to developing countries". Here US have to jealously guard its jobs as we guard our agriculture.

IT industry

Software, BPO, KPO, LPO industry boom in India has helped India to absorb a big chunk of demographic dividend, which otherwise could have wasted. "Best part is that export of services result in export of high value. There is almost no material exported which consume some natural resource. Only thing exported is labor of Professionals, which doesn't deplete, instead grows with time". Now India is better placed to become a truly Knowledge Economy.

Exports of these services constitute big part of India's foreign Exchange earnings. In fact, the only three years India had Current Account surplus, I.e. 2000-2002, was on back of this export only. **Banking**

Further, in banking too India has been a gainer. "Since reforms, there have been three rounds of License Grants for private banks. Private Banks such as ICICI, HDFC, Yes Bank and also foreign banks, raised standards of Indian Banking Industry". Now there is cut through competition in the banking industry, and public sector banks are more responsive to customers.

Here too IT is on path of bringing banking revolution. New government schemes like Pradhan Mantri Jan dhan Yojana aims to achieve their targets by using Adhaar Card. Having said this, Public Sector Banks still remain major lender in the country.

Similarly Insurance business now offers multiplicity of products such as Unit Linked Insurance plans, Travel Insurance etc. But, in India life Insurance business is still decisively in hands of Life Insurance Corporation of India.

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Now if we consider these sectors from "angle of our inclination towards free markets, certainly there has been lot of progress. There has been world class education available in India and Deregulation has resulted in Mushrooming of private engineering and Medical Colleges". But in reality, this had far reaching devastating effect on society.

These new colleges accommodate only a miniscule proportion of aspirants at very high costs. Recently, an Independent organization "Transparency International" came out with report claiming that India's medical system is most corrupt in the world. This was no surprise, we all know from where it starts. "High fees of education forces many aspirants to take educational loans from banks. After qualifying job market is unable to absorb majority of them. Practice turns out to be option of last resort. Now to make a decent living and to pay back the loans person is lured by corruption". Consequently, when many similar cases are put together, we get a corrupt system, economy and society.

Reality is that after deregulation and liberalization, government along with other sectors, pulled its hand from social sectors too. "Now there is Mediocre to high quality options are available in private sector which can be availed as per one's budget. In public Sector Less than Mediocre to Mediocre options are available". This leaves huge proportion of aspiring students and expecting patients.

On Social front India's performance is deplored all over the world and it is probably behind all important developing economies. "This lacuna has been recognized and government has taken the charge. In case of education almost universal enrollments has been achieved upto primary level and now impetus should be on improving quality", so that student of public schools comes at par with at least average private ones.

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Conclusion:

India gained extremely from the LPG model as its GDP increased to 9.7% in 2007-2008. In respect of bazaar capitalization, India ranks fourth in the world. But even after globalization, situation of farming has not improved. The share of farming in the GDP is only 17%. The number of landless families has increased and farmers are still committing suicide. But seeing the positive effects of globalization, it can be said that very soon "India will overcome these hurdles too and march strongly on its path of development. The lesson of recent experience is that a country must carefully choose a combination of policies that best enables it to take the opportunity - while avoiding the pitfalls. For over a century the United States has been the largest economy in the world but major developments have taken place in the world Economy since then, leading to the shift of focus from the US and the rich countries of Europe to the two Asian giants- India and China. Economics experts

and various studies conducted across the globe envisage India and China to rule the world in the 21st century. India, which is now the fourth largest economy in terms of purchasing power parity, may overtake Japan and become third major economic power within 10 years. To conclude we can say that the modernization that we see around us in our daily life is a contribution of Globalization. Globalization has both positive and as well as negative impacts on various sectors of Indian Economy". So Globalization has taken us a long way from 1991 which has resultant in the advancement our country.

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