



## THE EFFECT OF LIBERALISATION ON INDIAN ECONOMY: AN INDUSTRIAL SECTOR APPROACH

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### ABSTRACT

When Globalization becomes the need of the day every nation moved towards the policy of liberalization and India was not the exception to it. India also put steps forward for liberalization.

**Objectives:** To study the impact of liberalization on the industrial sector of Indian economy

**Methodology:** This study comprises of both qualitative as well as quantitative analysis. For the qualitative section standard literature on the subject has been studied and restored for conceptual clarification, narrations and explanations. For quantitative analysis using statistical tools, secondary data were utilized. Secondary data was collected from the text "Indian Industrial Development the post reform scene" by Vikram Chadda and G.S.Bhalla. The research works, already done in the allied fields were also received and studied.

**Results:** In this study an attempt has been made to capture certain major parameters of liberalization on Indian economy during the time taken. We have taken three parameters namely Capital goods, Intermediate goods and Consumption goods and it was found that after liberalisation there was a growth in the industrial sector of India.

**KEYWORDS:** Liberalisation, Globalisation, New Economic Policy, Industrial growth.

### INTRODUCTION

When Globalization becomes the need of the day every nation moved towards the policy of liberalization and India was not the exception to it. India also put steps forward for liberalization. Therefore, it was important to implement a good strategy of liberalization. Some of the important measures adopted by the government of India are; Abolition of industrial licensing and registration, Concession from Monopolies and Restrictive Trade Practices (MRTP) Act 1969, an Act to provide that the operation of the economic system does not result in the concentration of economic power to the common determinant, for control of monopolies, for the prohibition of monopolistic and restrictive trade practices and for matters connected therewith or incidental thereto. Be it enacted by Parliament in the Twentieth Year of the Republic of India as follow, increase in the investment limit of small industries, freedom to import capital goods, freedom to import technology, improving foreign direct investment, making easier to expand and produce, reduction in physical restrictions on importers, reduction in control of foreign exchange both current and capital account, reduction in the levels of personal and corporate taxation, reform of the financial system, partial privatization of public sector units.

### OBJECTIVES

To study the effect of liberalization on the industrial sector of Indian economy.

## METHODOLOGY

This study comprises of both qualitative as well as quantitative analysis. For the qualitative section standard literature on the subject has been studied and restored for conceptual clarification, narrations and explanations. For quantitative analysis using statistical tools, secondary data were utilized. Secondary data was collected from the text "*Indian Industrial Development the post reform scene*" by Vikram Chadda and G.S.Bhalla. The research works, already done in the allied fields were also received and studied.

## LITERATURE REVIEW

The number of research studies have been conducted on various aspects of liberalization and its impact on Indian economy. However, literature based on micro-level evaluation studies relating directly or indirectly to the subject matter of present study is scanty. A few prominent studies are reviewed in the following paragraph:

*Kulkarni and Bhattacharya (2009)* discussed numerous changes in economic regulation in India and the opening of international trade for the economy, their paper compares the economic development of the period before and after liberalization *Aghion and Burgess (2003)* studied the relationship between liberalization and economic performance they used the Schumpeterian growth model to guide their analysis where liberalization is modeled as a reform which reduces barriers to foreign entry *Jayanthakumaran (2002)* has shown the impact of trade liberalization on the manufacturing sector by examining relationship between trade reforms and manufacturing performance by using productive growth, export growth and changes in price-cost margins as yardsticks of performance measures *Chamarbagwala and Sharma (2008)* investigated the relationship between the industrial de-licensing, trade liberalization and skill upgrading during the 1980s and 1990s. They showed the role of de-licensing during 1980s and 1990s in generating demand skilled labour *Shastri, tripathi and Singh (2010)* studied the impact of liberalization on employment in India, they show that increasing flow of goods and services across national borders has been the most visible aspect of the increasing integration of the global economy.

## INDIA AND LIBERALIZATION

During the early 1990-91 Indian economy struck with Balance of Payment crises which led to Indian unavailability to repay for its external borrowings due to the deficiency of required foreign exchange reserves which we generally maintain for various import goods like petroleum etc. the crises was severe due to which we don't have sufficient exchange for even a fortnight and the situation become more complicated when prices of essential goods also rise above the required level. All this lead the government to introduce new policy measures, and which give scope of LPG (Liberalisation, Privatisation and Globalisation) model. Actually, this all happened due to an uncontrolled increase in expenditure which exceeded revenue by a large margin and meeting, India's expenditure needs through borrowings become unsustainable and due to insufficient foreign exchange we were not able to pay further interest on external borrowings and of course, no foreign nation was in favour to lend to India. India got some loan from IMF and the World Bank to handle the crises with their expectation to open up an economy by relaxing trade restrictions, privatisation etc. India after analyzing the condition and understanding the need of reforms agreed the various conditions of these institutions and introduced economic reforms in behalf of NEP (New Economic Policy). India's main motive to introduce these reforms was to provide a platform for companies leading to the competitive environment and remove various restrictions on entry and growth of firms.

## PRE-LIBERALIZATION

Before liberalization there was a growth of moderate rate with several fluctuations. If we look at Capital goods trend it shows a lot of fluctuations, starting from 10.6 per cent in 1985-86 it reached 18.2 per cent in 1986-87 then again it started decreasing till 7.3 per cent in 1988-89 and again increasing 21.9 per cent in 1989-90. Intermediate goods only once recorded the highest growth of 11.7 per cent in 1988-89, and consumption goods also fluctuated a lot in 1985-86 growth was of 12.5 per cent which was highest within

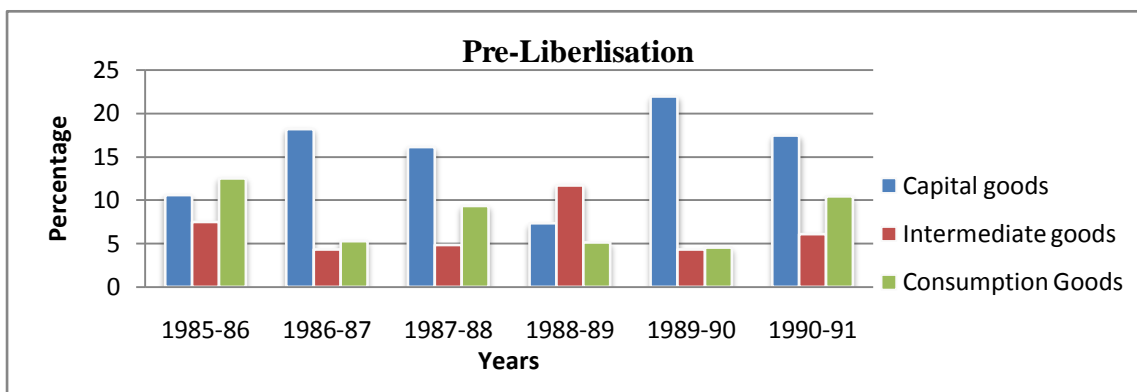
these six years but growth rate was the lowest i.e. of 4.5 per cent in 1989-90 then again it increased to 10.4 in 1990-91.

**Table 1. Industrial growth in India during Pre-Liberalisation era (in percentage)**

Years	Capital Goods	Intermediate Goods	Consumption Goods
1985-86	10.6	7.5	12.5
1986-87	18.2	4.3	5.3
1987-88	16.1	4.8	9.3
1988-89	7.3	11.7	5.1
1989-90	21.9	4.3	4.5
1990-91	17.4	6.1	10.4
Total	91.5	38.7	47.1

Source: C. Vikram, G.S. Bhalla. (1999) Indian Industrial Development: The Post Reform Scene, Kalyani Publishers, New Delhi

**Figure 2. Industrial Growth in Pre- Liberalisation Era**



**POST LIBERALIZATION**

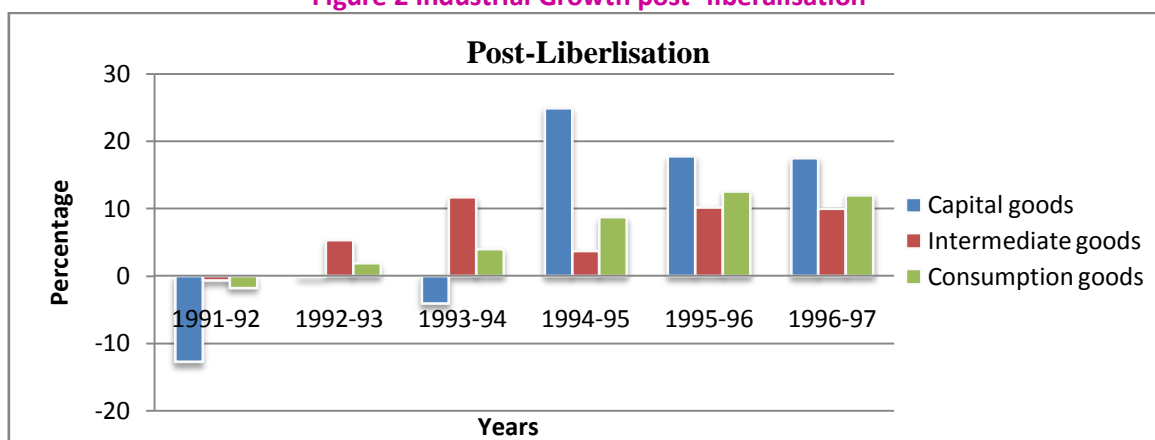
After liberalization there was overall progress in the industrial sector, the Government adopted various measures to make better industrial development. Government abolished industrial licensing and registration process made easier for small industries to increase investment limit, to import capital goods and technology, improved foreign direct investment, made concession from MRTP Act, reduced control over foreign exchange and reduced taxation. If we check some of aspects of industry we will find more growth in the post-liberalization period particularly looking at the Capital goods since liberalization growth was negative, i.e. -12.8 per cent in 1991-92, but with the passage of time growth also improved to 24.9 per cent in 1994-95 then again it declined to 17.5 per cent in 1996-97, it was more then what it was in the beginning of liberalization. Looking at the intermediate goods their growth was also negative i.e. -0.7 per cent in 1991-92, but was positive in 1993-94 i.e. 11.7 per cent, than again growth declined to 3.7 per cent in 1994-95 and again improved in the last. Finally, if we check the trend of consumption goods they recorded average growth starting from negative points, i.e. -1.8 per cent in 1991-92 to 12.0 per cent in 1996-97.

**Table.2 Industrial Growth of India Post – Liberalisation (in percentage)**

Years	Capital goods	Intermediate goods	Consumption goods
1991-92	-12.8	-0.7	-1.8
1992-93	-0.1	5.3	1.9
1993-94	-4.1	11.7	4.0
1994-95	24.9	3.7	8.7
1995-96	17.8	10.2	12.5
1996-97	17.5	10.0	12.0
total	43.2	41.6	37.3

Source: C. Vikram, G.S. Bhalla. (1999) Indian Industrial Development: The Post Reform Scene, Kalyani Publishers, New Delhi

**Figure 2 Industrial Growth post- liberalisation**



**CONCLUSION**

In this study an attempt has been made to capture certain major parameters of liberalization on Indian economy during the time taken. We have taken three parameters namely Capital goods, Intermediate goods and Consumption goods. It was clear from table 1& chart 1 that there was a growth of moderate rate with several fluctuations in Pre- liberalisation period, whereas after liberalisation of the Indian industrial sector there was overall progress in the industrial sector. The Government adopted various new measures to make better industrial development and it was clear from table 2 & chart 2 which shows an increasing trend in intermediate and consumption goods whereas there was a downfall in capital goods in 1995-96 i.e. 17.8 percent from 24.9 percent in 1994-95, but from the very next year it starts improving and it was a capital goods sector which started from negative at the beginning of the post-liberalisation period. Therefore, it is concluded that liberalisation proved successful for Indian industrial sector.

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