

MSE ACADEMY

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12TH

LIBERALISATION

Meaning of Liberalisation

Liberalisation (or liberalization) is any method of how a state raises limitations on some private individual ventures. Liberalisation befalls when something which was forbidden is no longer forbidden or when government laws are loosened.

Liberalisation was begun to put an end to these limitations and open multiple areas of the economy. Though some liberalisation proposals were prefaced in the 1980s in areas of export-import policy, technology up-gradation, fiscal policy and foreign investment, industrial licensing, [economic reform policies](#) launched in 1991 were more general. There are a few significant areas, namely, the financial sector, industrial sector, foreign exchange markets, tax reforms and investment and trade sectors which gained recognition in and after 1991.

Liberalisation in India

Since the adoption of the New economic strategy in 1991, there has been a drastic change in the Indian economy. With the arrival of liberalisation, the government has regulated the private sector organisations to conduct business transactions with fewer restrictions.

For developing countries, liberalisation has opened economic borders to foreign companies and investments. Earlier, Investors has to encounter difficulties to enter countries with many barriers.

These barriers included tax laws, foreign investment restrictions, accounting regulations, and legal issues. The economic liberalisation reduced all these obstacles and waived few restrictions over the control of the economy to the private sector.

Objectives

- To boost competition between domestic businesses
- To promote foreign trade and regulate imports and exports

- Improvement of technology and foreign capital
- To develop a global market of a country
- To reduce the debt burden of a country
- To unlock the economic potential of the country by encouraging the private sector and multinational corporations to invest and expand.
- To encourage the private sector to take an active part in the development process.
- To reduce the role of the public sector in future industrial development.
- To introduce more competition into the economy with the aim of increasing efficiency.

Reforms under Liberalisation

- Deregulation of the Industrial Sector
- Financial Sector Reforms
- Tax Reforms
- Foreign Exchange Reforms
- Trade and Investment Policy Reforms
- External Sector Reforms
- Foreign Exchange Reforms
- Foreign Trade Policy Reforms

Impact of Liberalisation

Positive Impact of Liberalisation in India

- 1. Free flow of capital:** Liberalisation has enhanced the flow of capital by making it affordable for businesses to reach the capital from investors and take a profitable project.
- 2. Diversity for Investors:** The Investors will be benefitted by investing a portion of their business into a diversifying asset class.
- 3. Impact on Agriculture:** In this area, the cropping designs have experienced a huge change, but the impact of liberalisation cannot be accurately measured. Government restrictions and interventions can be seen from production to distribution of the crop.

Negative Impact of Liberalisation in India

- 1. The weakening of the economy:** Enormous restoration of political power and economic power will lead to weakening the entire Indian economy.
- 2. Technological Impact:** Fast development in technology allows many small scale industries and other businesses in India to either adjust to changes or shut their businesses.
- 3. Mergers and Acquisitions:** Here small businesses are merging with big companies, therefore, the small companies employees may need to enhance their skilled and technologically advanced. This enhancing of skill and the time it might take may lead to non-productivity and can be a burden to the company's capital.

Economic Reforms during Liberalisation

Several sectors were affected by the outburst of the impact of Liberalization. Few economic reforms were:

- Financial Sector Reforms
- Tax Reforms / Fiscal Reforms
- Foreign Exchange Reforms / External Sector Reforms
- Industrial Sector Reforms.

MCQs

Q.1 _____ means removing all unnecessary controls and restrictions like permits, licenses, quotas etc. imposed by the government.

- a. Liberalisation
- b. Privatisation
- c. Globalization
- d. None of the above

Q.2- Which of the following reforms are included under liberalisation taken by the government?

- a. Industrial Sector Reforms
- b. Financial Sector Reforms
- c. Tax Reforms
- d. All of the above

Q.3- _____ introduce more competition into the economy with aim of increasing efficiency.

- a. Liberalisation**
- b. Privatisation**
- c. Globalization**
- d. None of the above**

Answer Key

1-a, 2-d, 3-a

what is the meaning of liberalization in economics?

Liberalization in economics means minimizing government restrictions and regulations in an economy in return of higher involvement of private organisation. In short, liberalisation means the removal of restrictions in order to promote economic development.

Name one example of liberalisation ?

The one example of liberalisation is the European Union liberalizing electricity and gas.

What is one role of liberalisation?

The one important role of liberalisation is to the ease government controls to encourage economic development.

What are the pros of Liberalisation?

The pros of Liberalisation are,

1. Removing tariff barriers and, therefore, reducing the products or services prices for consumers.
2. Trade liberalisation will increased competition from abroad.
3. Encourage incoming investment.

What are the 2 main objectives of Liberalisation?

The two main objectives of Liberalisation are,

1. To boost international foreign investment, industrial production, and technology competitiveness.
2. To increase the Indian goods position in the international markets.

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