

# [Liberalization in today's global economy and its effects on the economy of india](https://assignbuster.com/liberalization-in-todays-global-economy-and-its-effects-on-the-economy-of-india/)

[](https://assignbuster.com/)[Parts of the World](https://assignbuster.com/essay-subjects/parts-of-the-world/), [Asia](https://assignbuster.com/essay-subjects/parts-of-the-world/asia/)

## Effects of Liberalization on India’s Economy and Its Significance in Today’s Global Economy

In 1991 the Indian Economy was in crisis. Reserves for foreign currency totaled around one billion dollars. This crisis caused huge problems in areas of finances and the economy for India. Out of this crisis in 1991 came the New Economic Policy. It was implemented to help with country’s crisis by liberalizing and globalizing the economy. This policy brought about many changes that were planned to help India out of crisis. One way was to solve the balance of payment in Indian currency so it was devalued by 18 to 19 percent. Another was that investments were sold from public sectors to private and foreign investment was opened or loosened up. This policy helped to create changes in trade policies, fiscal and budgeting policies, money and financial policies, as well as, institutional and pricing reforms. The New Economic Policy features were; internal and external liberalization, furthering privatization, helping redirect resources private to public, creating a market friendly state and globalize the economy of India. The liberalization and changes helped to ease problems in the economy and created financial reform to make India the fastest growing economy around the globe.

There are consequences when liberalizing and globalizing a national economy, such as the increases in competition for economies in the market globally. This can show in the trading of goods and services and in moving capital. Domestic economic developments do not rest solely on policies domestically and market conditions, but instead are influenced by policies domestic and international along with conditions economically. One economic part of India that was affected most was the Agricultural sector. This is because agriculture has social implications in this country. It is the economic basis for the rural Indian economy. As far as socially it has socioeconomic consequences such as privileges and deprivations economically. But the reforms brought about the gradual phasing out of government control of the market and helped to promote free trade changing social ideology along the way (Mitra, 2008).

The up side to liberalization and globalization is that it has brought up the standard of living, slow down poverty, assures food, will expand economic industry and services and contribute to national economic growth. For industry in India this opened up the market for foreign investments. It took away the trade barriers with financial flow, goods and services trades and investments of corporations between nations. The fast rate of expansion by globalization is related to growth in communications and transportation. The beneficial effects to India’s economy can be seen in the foreign companies that are running in the country. These companies have given employment to a large population of the country reducing poverty and unemployment that has longed plagued the country. The new technology these companies brought with them helped to make India more technologically advanced (Talele, 2010). Two of the top new technology is IT services and Business process outsourcing. Both of these technologies helped to increase GDP over 6%. This advance did cause job displacement for many people when technology replaced human labor. But in the long run it has helped and will continue helping the economy of India.

India is a growing global economic power. It has a growth average of 8 percent in three years making India the world’s fastest growing economy globally. Growth has been steady and good even in the face of problems such as the Asian crisis of 1997-98 or the large jumps in energy prices. The growth has helped to decline poverty. The reform process that has helped make this possible and began in 1991 has made progress steady in spite of several changes in political leadership. India’s recent rapid development has been in line with the opening of its economy with the rest of the world (Lal, 2007). Reducing tariffs and restrictions on capital accounts have slowly been lifted. But despite India’s strong economic performance there is still a concern that this growth is beneficial the richer states of the country leaving the more poor states falling behind. Many want the most populous, which is the poorest, to also benefit from the growth. This is causing an inequity and leading to political economic and social difficulties in within these states.

The policy brought with it the rise of regulatory bodies and financial institutions that have changed the financial services from conservative to a very dynamic more liberal system. This is pivotal to the economic liberalization of India and is helping to bring the countries economic system up to par with many other national economies in the world. The financial sector was the most important reform India needed when it enacted the New Economic Policy of 1991 (Lal, 2011). The growth in services of finance has steadily climbed, but is still considered in a period of transition. This is still bringing huge changes globally in the financial services industry. But even with these advancements, socially the path has been stalled. But India is still on a strong path for development. Policies must be chosen that helps the country as a whole and help it to become more global. There is good and bad in liberalization, globalization, and privatization it is how we approach the good and bad situations when handling them that is important.

India’s economy has had huge policy shifts since 1991. In researching for this essay I found the new model of economic reform India is experiencing is considered the LPG or Liberalization, Privatization and Globalization model. This model hopes to make India a fast developing economic competitor that can match some of the bigger economies globally (Toronto Star, 2006). Reforms to business, manufacturing and financial sectors of business helped to raise the economy of India to a more productive level. These reforms hugely influenced the economic growth of India significantly. The liberalization or the loosening of government regulations are key in this steady economic growth. Another key component to India’s growth is the countries financial development, mainly the banking sector. Having a more efficient and developed financial system is vital to all levels of development. This is because of two reasons the first is the private sector being able to create a household savings for productive investment. The second is to make sure that those available financial resources are applied to productive uses to maximize the returns on investments and in turn helps the productivity in the economy Talele, 2010).

Globalization is a direct factor in the liberalization of India. There are approximately 60 percent of the rural population that still has not benefited fully from the reform. But in the last few decades the service sector has seen improvements and private investment is rising. The unemployment rate is stable and population growth has increased in most of India. The most common problem for the economy is the corruption in all levels, but more heavily in the bureaucratic level. This can be seen because of the politicians dependency on the bureaucrats and vice versa. This allows the elitist groups to gain more benefits. In some readings liberalization has lead to an inequality at all levels. Many say that liberalization supports capitalism, but when a large portion of the population only has their labor as their capital inequity occurs. Many see liberalization as increasing poverty and inequity (The Vancouver Sun, 1994).

When looking at liberalization and globalization of India the totality of the positive would definitely outweigh the negative outcomes. Most of what has happened economically to India has been positive. Liberalization relaxed the government controls on what business could and could not do. Reducing the red tape to start a business. It also gave decision making back to the business owner and greater freedom in the way products were imported or exported. This gives a positive effect and gave the country their ability to grow at a very high rate. In thinking of agriculture the only downfall is that restrictions have not been removed on corporate farming. Making the way farming is done in India too primitive to be functional on a global scale. Many want to see improved education among the farmers so adoption of modern farming techniques can replace the primitive practices and bring all of India to a more globalized world.