Liberalization:
Concept, features, Objectives & Its Impacts

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Meaning of Liberalization

- Liberalization in economics means minimizing government restriction and regulation in an economy in return of higher involvement of private organisation. In short liberalization means the removal of restrictions in order to promote economic development.

  Economic liberalization is the reduction of state involvement in the economy.

  Features of liberalization:

  (1) Freedom of opening/starting production units.

  (2) Use of new Machine and technology.

  (3) No Government interference in productions.

  (4) Free flow of foreign investment.

  (5) It encourages economic growth of private sector companies.

  (6) It provides motivation for export and allow more imports of capital goods and technology.

  (7) It simplifies the regulations, policy and tax structure.

Objectives

1. To unlock the economic potential of the country by encouraging the private sector and multinational corporations to invest and expand.
2. To develop a global market of a country.
3. To boost competition between domestic businesses
4. Improvement of technology and foreign capital.
5. To increase the competitive position of Indian goods in the international markets.
6. To improve financial discipline and facilitate modernisation.
7. To decrease the debt burden of the country.
8. To reduce the role of the public sector in future indistrial development.

Reforms under Liberalization

- Trade and investment policy reforms.
- Foreign exchange reforms
- Tax reforms
- Industrial sector reforms
- Financial sector reforms
- Foreign trade policy reforms

Impacts of Liberalization

- Positive impacts of liberalization:

1. Free flow of capital: Liberalization has improved flow of capital into the country which makes it inexpensive for the companies to access capital for investors.
2. Political risks reduces: Liberalization policies in the country lessens political risks to investors. The government can attract more foreign investment through liberalization of economic policies.

3. Impact on agriculture: In the Area of agriculture, the cropping patterns have undergone a huge change but the impact of liberalization can not be accurately measured.
Government restriction and Interventions can be seen from production distribution of the crop.

4. Diversification for investors: In a liberalised economy, Investors get benefits by being able to invest a portion of their portfolio into a diversifying asset class.

5. Stock market performance: Generally when a country relaxes its laws, taxes the stock market values also rise. stock markets are platforms on which corporate securities can be traded in real time.

Negative Impacts of Liberalization

1. Destabilization of the economy: Tremendous redistribution of economic power and political power leads to destabilizing effects on the entire Indian economy.
2. Technological Impact: Rapid increase in technology forces many enterprises and small scale industries in India to either adopt to change or close their businesses.
3. Threat from multinationals: On account of liberalisation competition has increased for the Indian firms. Multinationals are quite big and operate in several countries which has turned out a threat to local Indian firms.

4. Impact of FDI in banking sector: Foreign direct investment allowed in the banking and insurance sectors. Resulted in decline of governments stake in bank and insurance firms.
5. Mergers and acquisition: Acquisitions and mergers are increasing day-by-day. In cases where small companies are being merged by big companies the employees of the small companies may require exhaustive re-skilling. Re-skilling duration will lead to non-productivity and would cast a burden on the capital of company.