**Liberalization**

The basic aim of liberalization was to put an end to those restrictions which became hindrances in the development and growth of the nation. The loosening of government control in a [country](https://www.toppr.com/guides/geography/our-country-india/india-our-country/) and when [private sector companies](https://www.toppr.com/guides/business-laws/companies-act-2013/private-companies/)’ start [working](https://www.toppr.com/guides/quantitative-aptitude/work-and-time/work-from-days/) without or with fewer restrictions and government allow private players to expand for the growth of the country depicts liberalization in a country.

## **Objectives of Liberalization Policy**

* To increase competition amongst domestic [industries](https://www.toppr.com/guides/general-awareness/industrial-development-and-foreign-trade/popular-industries-in-india/).
* To encourage foreign trade with other countries with regulated imports and exports.
* Enhancement of foreign capital and technology.
* To expand global market frontiers of the country.
* To diminish the [debt](https://www.toppr.com/guides/economics/government-budget-and-the-economy/debt/) burden of the country.

## **Economic Reforms during Liberalization**

Many sectors were impacted during the course of Liberalization. They were:

* Industrial Sector Reforms
* Financial Sector Reforms
* [Tax](https://www.toppr.com/guides/maths/comparing-quantities/tax/) Reforms / Fiscal Reforms
* Foreign Exchange Reforms / External Sector Reforms

Let us discuss all reforms in detail:

### ***1. Industrial Sector Reforms***

A number of reformative steps were taken to deregulate the industrial sector. Like,

#### **I. Abolition of Industrial Licensing**

The government abolished the licensing requirements of all industries, except for five industries, which are:

* Liquor
* Cigarettes
* Defense equipment
* Industrial Explosives
* Dangerous [Chemicals](https://www.toppr.com/guides/chemistry/chemistry-in-everyday-life/chemicals-in-food/), [drugs](https://www.toppr.com/guides/chemistry/chemistry-in-everyday-life/drugs-and-their-classification/), and pharmaceuticals

#### **II.  Contraction of Public Sector**

A number of public sector industries which were earlier reserved under governmental control reduced from 17 to 8 in the count. Presently these companies are only 3 in number. Public sector undertaking controls in the sectors mentioned below –

* Railways
* Atomic Energy
* Defense

#### **III. De-reservation of Production Areas**

The productions areas which were earlier reserved for [Small Scale Industries](https://www.toppr.com/guides/business-environment/scales-of-business/small-scale-industries/) were de-reserved to all. This improved the land efficiency and developed more cultivation area across the country. Farmers were earlier restricted to use area owned by them. Later during privatization, many private sector organizations entered into the sector of farming. Liberalization technically increased the production per hectare and supported the growth of the nation.

#### **IV. Expansion of Production Capacity**

The producers were voluntarily allowed to expand their production capacity according to the nature of the market. They were allowed to choose their own crop or product. On the study of the market conditions related to demand and supply the producers were allowed to choose the size of land under cultivation for each crop and had a liberty to plan their production either for the domestic market or international markets.

Other products which had acceptability in international markets were allowed to manufacture. Exports were allowed for all types of crops. Import of latest technology was encouraged to develop more skills in agriculture.

#### **V. Freedom to Import Capital Goods**

To upgrade and adopt technology which is more advanced as compared to existing technology, the business houses, and production units were allowed to import capital goods from advanced countries. This helped in increasing the per-acreage cultivation across the country. Farmers and producers of other products were allowed to exchange the technological up gradation.

### ***2. Financial Sector Reforms***

Financial Sector includes various financial institutes like Commercial Banks, investment banks, stock exchange operators and foreign exchange dealers.

Following reforms were enforced and initiated in above mentioned financial institutes:

#### **I. Reducing various ratios**

* Statutory Liquidity Ratio (SLR) was lowered from 38.5% to 25%.
* Cash Reserve Ratio (CRR) was lowered from 15% to 4.1%.

#### **II. Competition from new private banks**

* The banking sector emerged in the private sector and many players grabbed the opportunity to compete with public sector banks.
* This lead to the creation of positive competition and expansion of the service sector for the consumers.

#### **III. Change in the role of RBI**

The ace bank of the country i.e. The Reserve Bank of India became a “facilitator”. Earlier RBI was the regulator of the financial activities in the country.

#### **IV. De-regulation on interest rates**

Banks were allowed to set their own interest rates on all business and commercial borrowings. But for saving bank deposits, the control was with the central government.

### 3. ***Tax Reforms / Fiscal Reforms***

Fiscal Reforms are the policies set for the government’s taxation and public expenditure policies. All macroeconomic related issues are part of fiscal policies designed by the central government. Prior policy simplified the tax structure and taxation rates were dropped and reduced for convenience of the taxpayers.

This increased the tax revenue for the government and reduced all tax evasion strategies which taxpayers used to follow to skip tax liability. As the tax revenue and other revenues increased for the government, correspondingly government started developing all the areas which were either underdeveloped or undeveloped.

### ***4. Foreign Exchange Reforms / External Sector Reforms***

All foreign exchange policies and foreign trade policies were covered in external sector reforms. These were developed to increase international trade between countries. Various reforms were initiated in this sector to develop the foreign exchange reserves. Some of the reforms were:

#### **I. Devaluation of Rupee**

The value of the rupee was deliberately devalued to encourage exports and discourage imports. In 1991, to increase foreign exchange reserves, exports were promoted and all relevant benefits were provided to exporters.

#### **II. Other Measures-**

* The quota system was abolished. Especially on imports
* All import related policies were trashed
* Duties on various imported goods were reduced
* All export duties were withdrawn

## **World Trade Organization (WTO)**

The world trade organization was constituted in lieu of The General Agreement on Trade and Tariff (GATT). In 1948, GATT was established with an association of 23 countries as a global trade organization to administrate all international and multinational trade agreements by providing equal opportunities to all the countries in international markets to encourage trading between the countries. This lead to a few transactional problems.

Some functions of the WTO are,

* The main function of WTO was to administrate “Trade review Mechanism”
* World Trade Organization was the facilitator for implementation, operation, and administration of all relevant objectives of multilateral trade agreements.
* World Trade Organization was the administrator of “Understanding the rules, procedures and governing the settlement disputes”
* WTO acted as the watchdogs of international trade and ensured all trade-related rules are followed and examine the trade regimes of individual members.
* WTO had its own dispute settlement court to resolve all matters which cannot be resolved through bilateral talks and discussions.
* It is the management consultant in the international market. The economists in WTO keep a close look at the global economy and provide studies on main issues for the day.