BUSINESS ENVIRONMENT

UNIT-2

PART-IV

LIBERALISATION

Meaning of Liberalisation

An economic policy which gives relaxations to entrepreneurs to enable them to make their decisions and give freedom to undertake economic activities at all levels is termed as policy of economic liberalisation.

The thrust of the policy was the freedom for the entrepreneurs to enter any industry/ trade/business. The approvals for any new venture including any change in the existing venture were almost automatic. The regimes of control were removed and the economic operations had been liberalised on all counts.

Objectives of Liberalisation

The main objectives of liberalisation were as follows:

i. To unshackle the Indian industry from needless and irksome controls

ii. To release the growth-promoting entrepreneurial energies

iii. To get rid of costly delays

iv. To enhance production of a variety of goods

v. To upgrade technology

vi. To develop international competitiveness and integrate the Indian economy with the world economy.

Many economists had been feeling the need for the gradual disbanding of the regime of licence, permits, controls, protectionist duties and subsidies. And this need was fulfilled by the policy of liberalisation.

LIBERALISATION MEASURES

The major reforms under liberalisation policy were as follows:

1. INDUSTRIAL POLICY REFORMS:

In post-independence India tariff walls were raised to promote industrial development in the country. Public sector enterprises were given the control of the commanding heights of the economy. Also, private sector was controlled through the licensing system which functioned through IDRA, MRTP and FERA etc. Prior to 1991, the main regulatory mechanisms in India's industrial sector were as follows:

i. Industrial licensing was required by a firm to start or expand its operation and also to decide the amount of production.
ii. Some industries were reserved for the public sector only, hence in these industries private sector was not allowed to operate
iii. Production of some goods was reserved only for small scale industries.
iv. In case of some industrial products there was price control as well as distribution control.

Thus, industries were operated within a complex system of controls and regulations. India had become a high-cost economy and could not stand global competition. Hence, India had to give way to liberalisation. Therefore, in pursuance of its liberalisation measures, the Government of India announced the New Industrial Policy in 1991. The main industrial reforms were as under

(i) Reduction in industrial licensing:

Industrial licensing had been abolished for all items except a short list of 5 industries related to security, strategic and environmental concerns. These industries are (a) alcoholic drinks, (b) cigarettes, (c) specific hazardous chemicals, (d) industrial explosives, (e) electronic aerospace and defence equipment,

(ii) De-reservation of industries for public sector: Areas reserved for the public sector were narrowed down from seventeen to eight and greater participation by private sector was permitted. At present, only two industries are reserved for operations of public sector: (a) Atomic energy generation (b) Railway operations

(iii) Reforms in small scale sector: Many production areas earlier reserved for small scale sector were now de-reserved. The investment ceiling on plant and machinery for micro, small and medium undertakings was enhanced. Market forces of demand and supply were allowed to determine the allocation of resources:

(iv) Expansion of production capacity: Earlier, industries had to obtain a license to increase production capacity. Now, they had freedom from capacity constraints. 'What to produce and how to produce would now be decided by the market forces of demand and supply.