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LPG POLICY AND THE DEVELOPMENT OF INDIAN ECONOMY- A HISTORICAL PERSPECTIVE

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Abstract
With the recommendations from IMF and World bank, Liberalization, Privatization and Globalization Policy (LPG Policy) was introduced By Mr.Manmohan Singh the then finance minister of India during Congress government in 1991. Prime Minister P.V. Narasimha Rao was instrumental behind this policy. The Indian economy was in a deep hole by 1985. Economy suffered a Balance of Payment (payments for export and import of goods, services and capital) crisis. Government was unable to pay off essential imports and ran a high deficit. Borrowings from external sources to finance those deficits and creeping inflation have made the economy worsen to the ground level. Various policy decisions take during 1980's and Gulf crisis at the end of 1980s lead to deep financial crisis in Indian economy.

Keywords: Liberalization, Privatization, Globalization, Industrial Policy,Investments.

Introduction

The significant shifts taken place in the economy have lead policy thinkers to introduce new model of economic reforms. This model is popularly known as Liberalization, Privatization and Globalization model. The basic objectives behind this model are to make India fastest developing economy in the world, to become self-sufficient and to make India as a stable economy.

While liberalization leads to the financial development, Privatization will form the basis for the financial development and Globalization will show the end result. In terms of international trade, removal of government restrictions on trade is called liberalization and disinvestment from Public sector undertakings and encouraging private investments in various sectors is called Privatization. Integration of an economy with the economies of the rest of the world is called globalization. Truly speaking the key role played by LPG policy in a country will strengthen the economy and make it very strong in terms of stability, sustainability and development.

World war1 and Worldwar2 have severely damaged the economies of entire world. As a result the international trade among the countries have slowed down. India is not exceptional to this. In the 1980s, Rajiv Gandhi, the then Prime Minister of India, started a number of economic restructuring measures. In 1991, the country experienced a balance of payments dilemma following the Gulf War and the downfall of the Soviet Union. The country had to make a deposit of 47 tons of gold to the Bank of England and 20 tons to the Union Bank of Switzerland. The International Monetary Fund necessitated India to shoulder a structure of systematic economic reforms. Consequently, the then Prime Minister of the country, P V Narasimha Rao initiated trailblazing economic reforms. However, the Committee formed by Narasimha Rao did not put into operation a number of reforms which the International Monetary Fund suggested. Different Policy decisions till 1991 and centralized procedures of the government have lead to the introduction of new LPG policy.

Pattern of LPG Process in India

The annual growth rate of the economy before 1980 was very low and stagnated around 3.5% from 1950s to 1980s, while per capita income averaged 1.3%. Only four or five licenses would be given for steel, electrical power and communications. A huge public sector emerged. State-owned enterprises made large losses. Infrastructure was poor and bureaucracy and corruption were at peak levels. At this junction government have opened the doors for private investment in different sector. Parallel to this the Government has decided to disinvest from its loss making undertakings so as to bridge the fiscal deficit. One of the primary and significant steps is abolition of industrial licensing system which was a major hurdle for the private investment Another major hurdle for the investment was MRTP commission which was formed to regulate the monopolies and their huge investments. This MRTP commission was abolished to help large business houses as a result investment limits were removed. Another serious issue was industrial sickness that time. Units under serious sickness were referred to BIFR(Board of Industrial and Financial Reconstruction) and suitable compensation package for the workers was also suggested.

In later stages, Foreign direct investments (FDIs) were allowed up to 51% in more significant areas. At the same time Foreign technology and Foreign technical expertise was also allowed in priority sectors. Steps were also taken to provide autonomy to the institutions for taking decisions freely in the areas of financing, procurement and marketing. Besides industrial autonomy and FDIs, exports from indigenous units were also encouraged. For this import liberalization for export promotion programme was launched. Under this programme, import duties were liberalized to procure Foreign technology, raw material. Certain measures were also taken to liberalize Foreign investment in existing indigenous units. Some decisions were also taken to promote import substituting export oriented units.

Liberalization

Liberalization has emerged from the term ‘Liberalism’. Liberalization follows mainly ’Laissez-faire’ system of Adam smith. Liberalization emphasis on market and investment economy. Many developed economies such as US, UK followed this system of open door policy which has got more significance duringb1980s. In India liberalization focused on minimizing the restrictions in domestic and Foreign trade and regulating the involvement of the government and giving freedom to the market forces namely demand and supply.

In this process of Liberalization, according to 1991 industrial policy all 18 industries which were reserved in the field of government control were reduced to only 3 industries viz., Arms and ammunition, Atomic energy and Rail transport. Currently few areas in these three areas are also liberalized for privatization. In this same process industrial licensing policy was also liberalized. Industrial licensing is made compulsory for only 5 industries. For all the remaining industries except those areas where population crossed 1million, industries can be freely established without the permission of the government. Decreasing the Import and export duties, further deregulating the trade between the economies will also be considered as Liberalization. Initially except banking, insurance and Aviation, in remaining all areas 100 per cent FDI was allowed. Trade agreements and Foreign technology transfer agreements between the countries was also a significant development during liberalization policy.

Privatization

The term privatization was first coined by Peter.F.Drucker in his famous book ‘The age of Discontinues’. Privation was initiated in Germany by Margaret Thatcher and gained momentum. Privatization means strengthening the market system, reducing the government role from the activities which has direct impact on the life style of people in an economy. After Britan, many economies in the world have initiated privatization process. Formation of OECD(Organization for economic cooperation and development) has given further impetus for developing economies like India. Privatization in one sense can also be treated as denationalization.

Huge amount of capital which was parked at Public sector undertakings, increased unplanned expenditures of the industries, lack of innovation, poor decision making and over involvement of the government in the management of PSUs have made them sick units. The new industrial policy 1991 have given a direction for privatization in Indian economy. Industrial delicensing, dereservation of industries, reduction of subsidies and inviting Foreign investments in different sectors can also be considered as privatization. In India Privatization was undertaken in two ways. The primary process is disinvestment and the latter one is strategic selling of industrial unit. Selling the equity completely or partially from the industrial unit is called disinvestment. The latter case is not followed in the country. Approximately from 30 blue chip companies, government has sold 20 per cent of equity to various areas.

In 2005, November National Investment Fund was established in order to divert the funds which are disinvested. From this fund a small percentage will be used for infusing capital into PSUs and remaining major amount will be utilized for reconstruction of PSUs. Major sources for disinvestment in India are NTPC, ONGC, Coal India, GAIL. Privatization in India will be seen as transfer of management(BHPV to BHEL), complete privatization(Maruti Udyog Ltd).

Table1: Disinvestment scenario in India

S.NO	YEAR	ESTIMATED(Cr)	ACHIEVED(Cr)
1	2010-11	40000	22144
2	2011-12	40000	13894
3	2012-13	30000	23956
4	2013-14	40000	15819
5	2014-15	36925	24277
6	2015-16	69500	23997

Source: Department of investment and Public investment Management

Globalization

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Globalization means opening the trade and economy for the rest of the world. In other words, every manufacturer or producer of goods can compete for sale of their products without restrictions or without any imposed control. Till 1990's India followed a patch of restricted trade. Such restrictions were that certain products would not be allowed to be imported as they were manufactured in India. For example, General Engineering goods, Food items, toiletries, Agricultural products etc. were in the banned list of import. Luxury products and limited manufactured products in India were charged high import duties in order to prevent them from importing so as to control the flow of Foreign exchange outside.

The initial 5 years of globalization have not produced fruits for the economy except few industries like Mc.Donald's, Coke. Globalization in the later stages of 1990 given opportunities to establish automobile giants like Hyundai, Daewoo etc. Due to globalization and liberalization, the Indian market is flooded with quality foreign products, affecting the Indian industries adversely. This has also resulted in the loss of jobs to many poor workers. Many Foreign universities have collaborated with Indian institutions. India has also entered several multi-lateral trade agreements in the areas of communication, services and intellectual property rights. Market economic policies spreading around the world, with greater privatization and liberalization than in earlier decades made Indian companies invest in foreign countries.

Table2: Corporates from India investing outside

S.NO	NAME OF THE CORPORATE	COUNTRY
1	Wockhardt CP Pharmaceuticals	UK
2	Hindalco Straits Ply	Australia
3	Aditya Birla Dashiqiao Chem	China
4	Wipro NerveWire Inc	USA
5	Tata Motors Daewoo	Korea
6	Mittal Steel Arcelor	Luxembourg
7	Reliance Industries Flag Telecom	Bermuda
8	Infosys Technologies Expert Information Services	Australia
9	Ranbaxy RPG (Aventis) Laboratories	France
10	Cadila Health Alpharma SAS	France

Globalization has resulted in increase in the production of some range of goods. MNCs have established manufacturing plants all over the world. There are some negative effects of globalization such as this process made disparity between rural and urban Indian. Globalization increased competition in the Indian market between the foreign companies and domestic companies. With the foreign goods being better than the Indian goods, the consumer preferred to buy the foreign goods which has reduced the amount of profit of the Indian Industry companies. Ethical responsibility of business has been reduced.

Conclusion

The combination of economic reforms took place with regards to business, manufacturing, and financial services industries targeted at lifting the economy of the country to a more proficient level. These economic reforms had influenced the overall economic growth of the country in a significant manner. Globalization has lead to practice management across the culture and now indigenous institutions are practicing global management practices. The process of globalization through privatization and liberalization have produced both positive and negative results. While the process of Liberalization shows the movement of the economy towards the market economy, Privatization is the route through which economy cruises to realize globalization.

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