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LPG POLICY AND GROWTH OF INDIAN ECONOMY

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The Indian economy faced a major change in its financial policy in the year 1991 as LPG (Liberalization, Privatization and Globalization). Government framed a new economic policy and introduced it on July 24, 1991. The idea of adopting this policy was to build the Indian economy more strong and powerful. In 1990 country faced a severe financial crisis, then this reform took place as a safety measure from the financial crisis. ''New industrial policy'' (NIP) was introduced in 1991 by the Government for the liberalization of the Indian economy. Business, manufacturing and financial service industry was influenced by the reforms and significantly it impacted the overall economic growth.

LPG Policy and It's Components:

These are the advantage of LPG policy

New foreign trade agreements were introduced.

Reforms in taxation policy.

Licensing system was abolished.

New MRTP Act, 1969 was implemented.

Steps to control inflation was started.

Privatization opportunities begun in the overseas trade.

Liberalization:

Financial reform in India began in 1991 and liberalization in India indicates the continuity of economic reform. Privatization and liberalization refer the reduction of government regulation and also it can be said that the command of the Government over the state is eliminated. A greater autonomy is provided to industries and business in decision making and the interference of Government is removed. Policymakers perceived that the force of demand and supply will bring efficiency in the market and it will help the economy to rise. The change of new reforms in financial sector was done internally by settling down the state's control.

Objectives:

To expand the competition among domestic business.

Promotion of foreign trade and regulation of export and import.

Development of countries global market.

Reduction in countries debt.

Private sector is encouraged to actively participate in the economy's expansion.

More competition to be introduced in the economy for increasing efficiency.

Liberalisation and the reforms:

Several sectors in India were affected by the implementation of liberalization policy in India. There were few economic reforms also which were a part of this policy. Following reforms were initiated by Government of India under the liberalization policy.

1. Deregulations of the Industrial sector.
2. Financial sector reforms.
3. Tax reforms.
4. Foreign exchange reforms
5. Trade and investment Policy reforms
6. External sector reforms
7. Foreign exchange reforms
8. Foreign trade policy reforms

Impact of Liberalization in India:

Whenever any policy is executed, it brings some positive changes in the market. The reason of execution of LPG was the enhancement of Indian economy and this reform was successful also as the economy grew very fast. In addition to some positive side of this reform it has some negative points too.

Positive impact of liberalization:

1. **Capital flow**: the flow of capital improved because of liberalization and getting capital from the investors has become inexpensive for the companies. They are able to take lucrative projects because of low cos of capital, before pre liberalization it was not possible because of higher cost of capital.
2. **Stock market performance**: stock market is a platform where corporate securities are traded in the real time. Whenever any countries law and taxation policy are relaxed the price of the stock market rises.
3. **Introduction of FDI in banking sector**: Allowance of FDI in the banks and insurance companies has declined the stake of Government from the banks and insurance companies.
4. **Political risks reduced**: political risk towards the investors reduced after the liberalization policy was initiated in India. Through liberalization foreign policies are easily attracted. A strong legal activity in country supports to perform the business easily.

5. **Diversification for investors**: Investors gets the benefit of investing their asset into the diversified portfolio in the liberalized economy.
6. **Agricultural impact**: Agricultural sector has gone through various changes but still Government has much control on the agriculture process which starts from production till the distribution so impact of liberalization is still unseen.

Liberalization and its negative impact in India:

1. **Diminishing of economy**: Redistributing the economic power tremendously leads to destabilize the entire economy of India.
2. **Threat from multinationals**: MNC's didn't have any performance in the Indian market prior to 1991. Public sector companies were dominant in the pre – reform era. Competition in Indian market has increased due to the liberalization. Multinationals being operational in different countries work at a large scale which is a threat for domestic firms in India.
3. **Impact of technology**: Enhancement in advanced technology has forced Indian small and medium industries to adopt the technological changes.
4. **Mergers And Acquisitions:** there is a rapid increase in merger and acquisition these days. Merger of small companies into big ones are frequently taking place these days. In this situation the employees of small companies require exhaustive reskilling. the duration of reskilling leads to non – productivity and puts burden on the company's capital.

Privatisation:

Privatization is defined as relocation of ownership from the Government owned sectors to individuals or private players who work for profit maximization. A shift of ownership takes place when the right is transferred from the Government to the companies owned by individuals. Government faced a lot of problem such as low efficiency, losses, problem of labours, interference of political parties which delayed the project completion. To come out from this situation Government introduced National Industrial Policy in 1991.

Disinvestment is the other word for privatization. Raising fund by selling of PSU's was the main objective of disinvestment. To create efficiency in PSU's, to make it more competitive, to make the customer more satisfied and to reduce political interference was the main reason of disinvestment.

Objective of Privatization:

- A strong base will be provided to FDI inflow.
- Enhancement in FDI inflow will improve the economy.
- PSUs are being given freedom to take decisions to improve its efficiency.
- Some companies were categorized as Navratna and Maharatna.

Ways of Privatization:

There are two ways of transforming of Government companies in to private company.

1. Transfer of ownership: Withdrawing the control from the management level of the public sector companies by the Government.
2. Disinvestment: A portion of equity of PSU's is sold to the private players. To improve the financial discipline equity is sold.

Different methods of privatizing a company

- Selling of shares to the public.
- Auction is done and the public is invited to participate.
- Invitation of tenders
- Negotiation is done
- Control is transferred from the state

Privatization and its impact:

Positive aspect is the following:

1. **Improvement in performance**: The motive of private companies is to earn more and more profit. There is less political interference. In private companies' employees are given benefits based on their performance so each employee tries to work harder and more efficiently.
2. **Less political interference**: Private companies are not influenced by the Government but in public sector companies' political involvement is present. The private players work with an aim of maximizing the profit only.
3. **Shareholders**: Private firms raise funds from investors to run the business. The shareholders have close eye on the firm's activity so the company works under pressure as they need to perform well in the market.
4. **Enhancement in competition**: Public companies don't have to face much competition as they enjoy monopoly but private sector has to actively participate in work and have to face the competition in the market. For example, now-a-days telecom, gas and electricity companies have more competition.

   However, it is completely dependent on market nature, privatization doesn't necessarily increase the competition. A rail industry and tap water sector has no competition.
5. **Raising revenue through the sale**: Selling of Government owned companies generates revenue for the government. Privatizing the company provides one time revenue to the Government.

Negative aspect:

1. **Natural monopoly**: Natural monopoly happens in that situation when there is only one firm operating in the industry. If we see tap water that is natural resource and the competition is nil as there are no other firms operating. Private monopoly will be created in privatization and the customer will be exploited by setting high prices by the firm.
2. **Interest of public**: there are industries which work for public benefits such as healthcare industry, educational institutions. Privatizaing these companies will create problems for people as profit maximization should not be the purpose of these companies.
3. **Loss of dividends**: Private companies operating in U.K. are more profitable. In this situation the government losses the dividend as it goes to the shareholders.
4. **Decentralization of industries**: In U.K. when railway was privatized it led to the breakup of rail network. No one was there to take the risk of Hatfield rail crash and to take the responsibility of safety. Getting rail tickets was more complex.
5. **Short term profit**: the private companies seek to invest in short term profits. They avoid investing in the long-term projects. If we take example of U.K. the companies are not investing in new energy sources, they use only existing plants and aren't keen to invest in new projects.

Globalization:

Integration of any countries economy to the world economy is defined as globalization. In the era of globalization, the world is like a global village. Connectivity of trade, culture and economy increases in globalization. It is a process which allows the business to operate at international level. The entire world is accessible for the people because of globalization.

Economic reform and LPG in India:

After getting independence still Indian economy was following socialistic economic policies. In 1980, Rajiv Gandhi the Prime minister of India initiated a number of economic measures for better economic performance. In 1991, India faced an economic crisis and it had only one week of currency left for payments. T P.V.Narasimha Rao and Dr. Manmohan singh the prime minister and the finance minister both started to make changes in the countries policy and implemented LPG to lift the economy.

Narasimha Rao Committee's Recommendations:

These are the following recommendations:

SEBI Act 1992, was introduced to bring security regulations. SEBI had to record all the data of the investors and control on the capital market. SEBI determined the rates and number of stocks which the companies had to issue in the market.

National stock exchange was established in 1994. Buying and selling of shares were to be done digitally now. This restructured the stock exchange in the country. India was one the biggest stock exchange market by 1996. FDI was promoted for raising capital. International capital contribution was drawn from 50 % to 40%. Industries with high priority were allowed 100 % foreign equity.

Indian currency rupee was turned to an exchangeable currency. The duties were also cut down to 25% from 40%. 35 sectors were allowed FDI. All these changes in Indian economy helped it to grow fast. Even license raj was abolished and only some sectors had to take license. India is a developing market so the reforms were helpful for the economy to compete with developed nations.

Advantages of Globalisation in India:

1. **Employment opportunity**: Under new reform Special Economic Zone were set up. This increased the jobs. In India due to large population labour is cheap which is an additional benefit. People are getting employment in Export processing zones also.
2. **Compensation**: Domestic companies of India don't compensate more to their employees but foreign companies offer more to the skilled and knowledgeable employees.
3. **Living standard**: With an increase in employment the life style of people has changed. The purchasing power of people have increased which has enhanced the standard of living.
4. **Expansion of market**: After globalization companies are able to extend their size of business.
5. **Development of Infrastructure**: Infrastructure developed because globalization was introduced. For example, technology is growing rapidly, communication is getting fast now a days.
6. **Development of healthy competition**: Manufacturing cost is reduced with the integration of global market. it also decreases the processing time and improves the quality of business.

Disadvantage of Globalization:

1. **Inequality**: Income inequality have been observed after globalization. A rural urban divide has increased. Still there are people in the world who have no access to the basic technology. Many people are excluded from the benefits of the globalized market.
2. **Inflation**: Commodity price has increased due to high demand of energy and food. Aflation which is also called food price inflation is occurring in many countries.
3. **External economic shocks**: Countries are now connected to one another. So, if there is any change in one counties economy rest of the world is impacted by it. For example, recession of 2008 in U.S.A. has impacted the whole world.
4. **Threats to Global Commons**: the ecosystem is getting damaged. Due to globalization deforestation, land degradation has increased. Biodiversity is getting affected.

5. **Standardization**: Economic and cultural diversity is reducing in the developing countries. Multinational brands are capturing the domestic market and also the culture of developing country is changing.

Impact of Globalization on Indian Economy:

Indian economy has completely changed after globalization. International trade has increased. It has enhanced the employment opportunity for people and also the Indian market is growing fast and competing with the world economy. The technological changes are also taking place which helps the economy to rise further.

These are the impact of Globalization:

1. **Impact on economy**: Competition between different countries have increased. Foreign investors are now more interested to invest in stock and share market. the market of developing country in increasing because of FDI. International trade has also increased which is empowering the world.
2. **Effects on culture**: Globalization is multidimensional. Mutiple cultural variances are seen in the world. Spread of education has completely changed peoples mind and lifestyle. Sharing of information and technology has enhanced the world culture.
3. **Political Effects**: Due to globalization geographical , political and cultural borders have been removed which has refined the individuals and nations attitude and behaviour.
4. **Technological changes**: Technology is an essential component of globalization. It has played an important role in bringing the countries and economies together. Many new innovations have taken place in the financial market due to the technology. Is has made the life easier and comfortable. The transparency is seen in the global market. the communication is fast and everything in accessible.

Overall LPG helped the Indian economy to grow fast.

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