Critical Analysis of LPG reforms in India

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ABSTRACT

LPG reforms of 1991 is a strategic shift in Indian economy which changed the very Nature of Indian reality today. This topic forms the foundation for Indian Economy today. Having a fair idea about the change it brought in Indian economy and international events which lead to it is important for the Mains across disciplines. the present study evaluates the LPG policy in India.

keywords: Strategic shift, disciplines, business regulation, Central planning,

Introduction

New Economic Policy of India was launched in the year 1991 under the leadership of P. V. Narasimha Rao. This policy opened the door of the India Economy for the global exposure for the first time. In this New Economic Policy P. V. Narasimha Rao government reduced the import duties, opened reserved sector for the private players, devalued the Indian currency to increase the export. This is also known as the LPG Model of growth. New Economic Policy refers to economic liberalization or relaxation in the import tariffs, deregulation of markets or opening the markets for private and foreign players, and reduction of taxes to expand the economic wings of the country. Former Prime Minister Manmohan Singh is considered to be the father of New Economic Policy (NEP) of India. Manmohan Singh introduced the NEP on July 24,1991.

Research Methodology

This research paper is based on the study of different research paper and edited books published after 1991 in India and abroad. Some data in this research paper has been taken from Economic Survey published by government of India and Yojna and Kuruchhetra published by Publication Division, government of India.

Result and Discussion

Nature of Indian economy in the pre reform era:

Indian economic policy after independence was influenced by the colonial experience, which emphasised on industrialization under state monitoring, state intervention in labour and financial markets, a large public sector, business regulation, and central planning.

Indian economy was a closed one. Licence Raj was prevalent to set up business in India. The Indian rupee was inconvertible and high tariffs and import licensing prevented foreign goods reaching the market.

The central pillar of the policy was import substitution, the belief that India needed to rely on internal markets for development, not international trade. There was restriction of foreign investment and technology and government controlled finance and capital markets.

There were high duties and taxes with multiple rates and large dispersion. PSUs were considered as the engine of growth. There were restrictions on Foreign Direct Investment (FDI) and Multinational corporations (MNCs).

Factors which lead to 1991 economic reforms:

Rise in Prices: The inflation rate increased from 6.7% to 16.7% due to rapid increase in money supply and the country's economic position became worse.

Rise in Fiscal Deficit: Due to increase in non- development expenditure fiscal deficit of the government increased. Due to rise in fiscal deficit there was a rise in public debt and interest. In 1991 interest liability became 36.4% of total government expenditure.

Increase in Adverse Balance of Payments: In 1980-81 it was Rs. 2214 crore and rose in 1990- 91 to Rs. 17,367 crores. To cover this deficit large amount of foreign loans had to be obtained and the interest payment got increased.

Iraq War: In 1990-91, war in Iraq broke, which led to a rise in petrel prices. The flow of foreign currency from Gulf countries stopped and this further aggravated the problem.

Dismal Performance of PSUs: These were not performing well due to political interference and became big liability for government.

Fall in Foreign Exchange Reserves: India's foreign exchange reserve fell to low ebb in 1990-91 and it was insufficient to pay for an import bill for 2 weeks.

International events associated with Indian reforms:

- The Soviet Union was collapsing at the time, proving that more socialism could not be the solution for India's ills.
- Deng Xiaoping had revolutionized China with market- friendly reforms.
- 1990-91 Iraq war led to the stoppage of flow of foreign currency from Gulf countries.
- To tide over the Balance of Payment (BoP) issues, India borrowed huge amount from International Monetary Fund (IMF).
- The Asian financial crisis of 1997-99 laid India low. The dot-com collapse and global recession of 2001, and the huge global uncertainty created in the run-up to the invasion of Iraq in 2003.
- The global boom of 2003-08 spearheaded by China.

Nature and scope of reforms:

India's New Economic Policy was announced on July 24, 1991 known as the LPG or Liberalization, Privatisation and Globalization model.

Liberalization- It refers to the process of making policies less constraining of economic activity and also reduction of tariff or removal of non-tariff barriers.

Privatization- It refers to the transfer of ownership of property or business from a government to a privately owned entity.

Globalization- It refers to the expansion of economic activities across political boundaries of nation states.

The main objective was to plunge Indian economy into the arena of "Globalization" and to give it a new thrust on market orientation. The policy was intended to move towards higher economic growth rate and to build sufficient foreign exchange reserves.

It wanted to achieve economic stabilization and to convert the economy into a market economy by removing all kinds of unnecessary restrictions. The policy aimed at increasing the participation of private players in all sectors of the economy.

Salient features of LPG Policy:

- Abolition of Industrial licensing/ Permit Raj Public sector role diluted
- MRTP limit goes
- Beginning of privatisation
- Free entry to foreign investment and technology Industrial location policy liberalized
- Abolition of phased manufacturing programmes for new projects
- Removal of mandatory convertibility cause Reduction in import tariffs
- Deregulation of markets Reduction of taxes

Outcome of the LPG reforms:

Positive outcomes:

- India's GDP growth rate increased. During 1990-91 India's GDP growth rate was only 1.1% but after 1991 reforms GDP growth rate increased year by year and in 2015-16 it was estimated to be 7.5% by IMF.
- Since 1991, India has firmly established itself as a lucrative foreign investment destination and FDI equity inflows in India in 2019-20 (till August) stood at US$ 19.33 billion.
- In 1991 the unemployment rate was high but after India adopted new LPG policy more employment got generated as new foreign companies came to India and due to liberalization many new entrepreneurs started companies. Per Capita income increased due to an increase in employment.
- Exports have increased and stood at USD 26.38 billion as of October, 2019.

Negative outcomes:

- In 1991, agriculture provided employment to 72 percent of the population and contributed 29.02 percent of the GDP. Now the share of agriculture in the GDP has gone down drastically to 18 percent. This has resulted in a lowering the per capita income of the farmers and increasing the rural indebtedness.
- Due to opening up of the Indian economy to foreign competition, more MNCs are competing local businesses and companies which are facing problems due to financial constraints, lack of advanced technology and production inefficiencies.
- Globalization has also contributed to the destruction of the environment through pollution by emissions from manufacturing plants and clearing of vegetation cover. It further affects the health of people.
- LPG policies have lead to widening income gaps within the country. The higher growth rate is achieved by an economy at the expense of declining incomes of people who may be rendered redundant.

Conclusion :

Should we or we we not subscribe to the LPG policies? It is debatable issue. But avoiding the pros & cons of LPG can definitely make one concrete observation: That LPG policies are only way out to accelerate the pace of growth and development. indeed, perusal of LPG policies was to a great extent a matter of economics compulsion rather than a matter of choice for the politician of the country. However, a compulsion should never mean a abject surrender. It is strongly recommended that LPG policies are persuaded with guarded precautions.

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