World Wide Journal of Multidisciplinary Research and Development

WWJMRD 2017; 3(12): 400-403
www.wwjmrd.com
International Journal
Peer Reviewed Journal
Refereed Journal
Indexed Journal
UGC Approved Journal
Impact Factor MJIF: 4.25
e-ISSN: 2454-6615

Performance of Indian Economy since 1991: An Appraisal of LPG Policies

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Abstract
The economic crisis off 1991 compelled the Indian Government to go for drastic changes in country's economic policies. These changes were hinge upon Liberalisation (L), Privatisation (P) and Globalisation (G). These reforms are often described as the New Economic Policy or the policy of LPG. Under liberalisation various control on Indian economy were removed such as industrial licensing system and foreign exchange control. On the other hand privatisation aims at allowing more industries to set up under private sector which were previously reserved for the public sector. The aim of globalisation was to integrate the economy of the country with the economies of other countries by allowing free movement of trade, capital and persons across borders. After 26 years of economic reforms a critical appraisal of LPG policies is required. This article aims to understand the positive and negative impact of these policies on the Indian economy.

Keywords: Economic policy, liberalisation, Globalisation, Privatisation, Licensing system, Foreign exchange

Introduction

Historical background

Economic reforms in India had completed 26 years as on 31st March 2017. The year 1991 came as a landmark in economic history of Independent India. Before 1991 the country was going through a severe economic crisis created by fiscal and trade deficit. The massive deficiency in foreign trade balance was increasing. Since 1987 till 1991 the deficit balance of trade was increasing in accelerating rate and by the end of 1990-91 it became 10,644 Crore Rupees. On the other hand foreign exchange and balance of payment was also decreasing. In 1990 and 1991 the Government of India had to take huge amount of loan from IMF as compensatory financial facility. At the same time, India was also suffering from high rate of inflation, which was touching the level of 12% by 1991.
These crisis of led to introduction of some fundamental changes in the content and approach of economic policy of the country. A set of policies were introduced aiming at stabilisation of prices and structural reforms in economy. Stabilisation policies aimed at overcoming the weakness that arises on the fiscal deficit, foreign exchange and balance of payment side. On the other hand the structural reforms aim to remove the rigidities and restrictions that were prevailing in various economic segments of the Indian economy since independence.

Present Scenario

Since then the country is now classified as a newly industrialised country, and one of the G-20 major economies, with an average growth rate of approximately 7% over the last two decades. The Indian economy has the potential to become the world's 3rd-largest economy by the next decade, and one of the two largest economies by mid-century. The International Monetary Fund (IMF) described the Indian economy as the "bright spot" in the global landscape. It makes the information more secure and can categorize the data easily. The impact of these reforms on various sectors of Indian economy during this period can be analysed under following headings:

- **Growth of GDP:** GDP gives the total worth of the goods and services produced in

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a country in one particular year. India's GDP stood at Rs 5,86,212 crore (5.6%) in 1991. About 25 years later, it stands at Rs 1,35,76,086 crore, (7.6%) in 2016 . In dollar terms, India's GDP crossed the $2 trillion mark in 2015-16. Currently, the country is ranked ninth in the world in terms of nominal GDP and the third-largest by purchasing power parity (PPP). India topped the World Bank's growth outlook for the first time in fiscal year 2015–16, during which the economy grew 7.6%. Though the growth had declined slightly to 7.1% for the 2016–17 fiscal year due to demonetisation in November 2016 but it will be recovering soon.

- **Impact on Industrial Sector:** The period from 1981 to 1991 is regarded as industrial recovery period. During this phase, Industrial growth was between 6.4 to 8.3%. The main cause of this revival was gradual liberalization of the industrial licensing. Simultaneously the green revolution resulted in increased prosperity of the large farmers in some parts of the country led to increased demand of farm mechanization. After introduction of New Industrial Policy in 1991 the country had a bitter experience of negative growth rate of (—) 0.10 per cent in 1991-92 as compared to that of 8.5 per cent in 1990-91. This is the clear evidence of sharp industrial retrogression in the country. But after that in 1995-96 the country experienced an industrial upturn trend as annual growth rate during this year stood at 11.7 per cent, During the year 1996-97 industrial output has increased by 7.1 per cent and further 8.6 per cent in 1997-98. However industrial sectors had undergone marginal growth in last 26 years Industrial slowdown had been recorded in all broad sectors such as manufacturing, electricity and mining. However, the reasons for slowdown in industrial growth during this period are due to a number of structural and cyclical factors as explained below:
  - ✓ Due to globalisation imports became cheaper. It reduced the demand for domestic goods.
  - ✓ The adjustment process is industry in response to increased competition in the form of mergers and acquisitions is taking longer time than expected.
  - ✓ Infrastructural bottlenecks and high costs.
  - ✓ Unreliable supply of services in transport, communications and power sector.
  - ✓ Lower speculative demand for sectors like automobiles and real estate due to expectation of lower prices and reduction of taxes and duties in the short term period.
  - ✓ Free movement of goods and services, due to globalisation, from foreign countries has adversely affected the local industries and employment opportunities in developing countries like India.

- **Impact on Agricultural Sector:** Economic reforms had not been proved much beneficial to our agricultural sectors. The post-reform period shows the gradual decline in the agriculture sector's contribution to the Indian economy. India's traditional occupation, agriculture now contributes only about 15% to the GDP, down from 29 percent in 1991. The main reasons could be:
  - ✓ In wake of LPG policies focus shifted to industry from agriculture.
  - ✓ Investment in agriculture sector reduced in reform period.
  - ✓ Infrastructural facilities like irrigation, power, roads, and market linkage could not developed in a planned way.
  - ✓ Removal of subsidy on fertilizers led to increase in cost of production which adversely affected small and marginal farmers.

Slow growth of agriculture had ultimately hindered the growth rate of industrial sector as well. The reason being agriculture sector is an important source of raw material and labour supply to industrial sectors.

During the fiscal year 2010-2011, Agriculture growth had been 3.28% against the expected 4.0%. In year 2015-16 it came down at 1.2%. However the growth rate for the agriculture and allied sectors was estimated to be 4.1 per cent for 2016-17. From 1.2% in 2015-16. It is important to note that agriculture contributes about 14% of India's economic output despite nearly half of the country's population being involved in farming and other allied activities. For India to grow at 8%, agriculture must grow sustainable rate of at least 4%.

- **Impact on service Sector:** The Indian services sector includes financial, banking, insurance, non-financial/business, outsourcing, research and development, courier and technical test analysis. This sector has taken the lead role in propelling the economy at the global stage. This sector had taken position of key driver of India's economic growth. The sector contributed around 66.1 per cent of its Gross Value Added growth in 2015-16, thereby becoming an important net foreign exchange earner and the most attractive sector for FDI (Foreign Direct Investment) inflows. Service sector had attracted the highest amount of FDI equity inflows in the period April 2000-December 2016, amounting to about US$ 58.345 billion which is about 17.99 per cent of the total foreign inflows, according to the Department of Industrial Policy and Promotion (DIPP). As per the first advance estimates of the Central Statistics Office (CSO), the services sector is expected to grow at 8.8 per cent in 2016-17.

- **Impact on Foreign Direct Investment:** Before 1991, foreign investment in India was negligible. The first year of Economic reform saw a total foreign investment of only $74 million. However, investments have steadily risen since then, except for occasional slips between 1997 and 2000 and 2008 and 2012 – owing to the global economic slowdown. As of 31 March 2016, the country has received total FDI of $371 billion, since 1991. The year 2008 recorded the highest FDI inflow of $43.40 billion. The biggest spurt in inflow was between 2005 and 2006 – 175.54%. As of March 2016, India has attracted $10.55 billion worth of FDI. In 2015, India received $63 billion (nearly Rs 4.19 lakh crore) and replaced China as the top FDI destination.

- **Impact on Foreign Institutional Investment:** Unlike FDI, FII investment is not for long term and is sensitive to domestic and international volatility. FII inflows and outflows may often reflect a nation's economic and political stability. In 1992-93, FII inflow stood at a meagre $4.2 million. By 1994-95, this figure had risen to $2.43 billion. However, there was a net outflow of $386 million for the first time in 1998-99. The reason for this may be the political instability and the Kargil War. Another major outflow of $9.83 billion was recorded in 2008-09. It was the period of the global financial crisis. However FII inflow rose to $45.69 billion in 2014-15 from $8.87 billion in 2013-14, a 414 percent spike in one year. In 2015-16, however, there was a net FII outflow of $2.53 billion.

- **Impact of Purchasing Power Parity (PPP):** It gives a comprehensive idea on the standard of living and the cost of living in a particular country. When per capita income of Indians is calculated in terms of PPP, the standard of living has improved for sure. However, the cost of living has risen too. In 1991, per capita PPP was $1,173. In 2014, it rose nearly five-fold to $5,701. Nevertheless, when compared with developed countries, India's standard of living as well as cost of living is quite low.

- **Impact on Foreign Exchange Reserve:** It was India's dismal state of Foreign Exchange Reserve that forced the government to bring in economic reforms. Now after 26 years, forex reserves are at a record high. In 1991, it stood at just $5.8 billion. As of 24 June 2016, the country's forex reserves are at $360.8 billion. The biggest jump in reserves was witnessed between 2007 and 2008 when the figure hit $309.2 billion.

- **Impact on Employment:** Economic reforms had not generated sufficient employment in the country. The labour force in India currently stands at 49.7 crores. In 1991, it stood at 33.7 crores. More or less two-fifth of population is part of the labour force. The most important fact is that the decline in unemployment rate over the last 25 years is only marginal i.e. from 4.3% in 1991 to 3.6% in 2014. The sectoral composition of labour has witnessed a notable change. The agriculture sector, which is considered India's backbone, now employs less than 50% of the labour force, while industrial and service sectors have marginally surged ahead. Employed Persons in India averaged 25169.51 Thousand from 1971 until 2012, reaching an all-time high of 29650 Thousand in 2012 and a record low of 17491 Thousand in 1971.

- **Impact on Disinvestment:** Indian government fixes a target for disinvestment of Public Sector Units every year. This target was of Rs 2,500 Crore in 1991-92. In the Union Budget of 2016-17 Government had aimed to raise 56,000 crore through disinvestment process. In 2015-16, the government was able to rise about Rs. 18,400 crore by selling stakes in public sectors enterprises which was 50% lower than the set target. It is worth mentioning that policy of disinvestment will serve its purpose only when the revenue is used in building economic and social infrastructure in the country rather than offsetting it against shortage of public revenue.

- **Consumer's Sovereignty:** Due to LPG policies, global market came within the reach of local buyers. Diversified range of goods and services were made available to consumers at attractive prices. Producers even started manufacturing as per choice and preferences of customers. Customer became the king of the market. It resulted into overall rise in the welfare status of the people.

- **A Drift from Monopolistic Market to Competitive Market:** With the launch of LPG policies, the Indian market witnessed a significant shift in its structure. Till 1991, Indian market was dominated by monopolistic firms. But with advent of NEP 1991, this monopolistic character became more and more competitive in nature. Wide range of consumer goods like Television, Refrigerator, Washing machine, air conditioners etc were made available at competitive rates.

- **Urban Concentration of Growth Process:** LPG policies had led the growth process concentrated on urban areas. Impact of globalisation and privatisation can be seen in urban areas only. We cannot find any multinational companies in rural areas as these areas do not have conducive infrastructure facilities to attract MNCs. It had led to increase the gulf of imbalance between rural and urban areas wider. It had created demographical and economic imbalances as well which is not good for holistic development of a nation.

- **Spread of Consumerism and Economic Colonisation:** With the introduction of LPG policies, MNCs were allowed to enter in the Indian market. It results in spreading of consumerism at large scale. A wide range of foreign b rand are available which are luring the customer to spend more than their capacity. He/she is ready to purchase goods at credit also. Customers are being adversely affected by demonstration effect and materialism. On the other hand these multinational companies are exploiting the Indian market of goods and service providers to sell their products and services to them. Domestic producer found helpless in front of these MNCs as their competitive strength is low. This situation is leading to sort of economic colonialism again in India.

Conclusion

By above critical discussion we find the though LPG policies had not been up to mark in the field of agriculture and industry, its success in overall growth of Indian economy cannot be ignored. Indian economy, in today's time, stand in the row of leading economy due to adoption of LPG policies. These policies had raised the level of economic activity in the country which was necessary for growth of GDP and national income. Due to LPG policies, today, the global investors are choosing India as their preferred destination for investments. For better results and to minimise the negative impacts all we need is the regular appraisal and revision of these policies in the context of changing economic scenario.

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