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Role and Impact of Liberalization, Privatization & Globalization (LPG) On Retail Industry

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Abstract: This paper reviews role and impact of Liberalization, Privatization and Globalization on retail industry between country and within- country. Encouraging results of the liberalization measures introduced in 1980s by the Government of India, Majority of the industrial enterprises in the public sector have failed to achieve the desired result, More important, perhaps, it refers to a process of increasing economic integrated and growing economic interdependence between countries in the world economy. Retail industry has geared up in all respect, as well as it being forced to face a lot of healthy competition from many national as well as international retail sector. There was remarkable improvement in the Indian retail industry soon after acceptance and adaptation of Liberalization, Privatization and Globalization (LPG) in the year 1991.

Keywords: Retail Industry, Liberalization, Privatization, Globalization.

I. Definition of the Microcirculation

The microcirculation is essential to many functions of the organism. In addition to delivering nutrients and removing waste products essential for moment to moment function, the microcirculation plays an essential role in fluid exchange between blood and tissue, delivery of hormones from endocrine glands to target organs, bulk delivery between organs for storage or synthesis and providing a line of defense against pathogens. To execute these functions satisfactorily, certain features are necessary in the microcirculation. In the description that follows we provide an overview of these features, based in large part on skeletal muscle, which constitutes 50% of body mass and has perhaps the largest capability of any organ for altering blood flow according to need. On a practical level, it is also more accessible for microcirculatory studies than most other organs.

Rajiv Gandhi's government initiated the policy of liberalization since mid-80s. The liberalization initiatives have been undertaken in India with a view to increase a production, improve quality and get access to market for products and service abroad. Radical liberalization or globalization measures have been brought in since July 1991 to make the Indian economy progressively market oriented and integrate it with the emerging global economy structure. These measures include reduction and rationalization of excise duty and customs duties, delicensing of several drug and pharmaceutical products, ready access to import of raw material and capital goods and so on.

It has created an environment conducive to an enterprise, investment and innovation. Indian industries have started to attract foreign portfolio investment and equity participation in new ventures. The government is committed to make foreign players eat at ease to invest directly and bring with it new technology and marketing skills.

There has been impressive growth in FDI inflows to India with the introduction of policy reforms. As compared to a near total concentration in manufacturing till 1991, the bulk of new inflow has come in the energy and service sector.

II. LIBERALIZATION

A number of significant economic changes introduced by many a number of countries all the world over, the encouraging results of the liberalization measures introduced in 1980s by the Government of India, and the precarious economic situation that prevailed during the later part 80s have encouraged and forced the then Congress government, which came back to power at the center, under the leadership of Shri. P. V. Narasimha Rao—a non - Nehru family member, to take some bold measures to rejuvenate the economy and to accelerate the pace of development. In this background, the Government of India announced its New Industrial Policy (NIP or IP) on July 24, 1991. The important objectives are: (a) to correct the distortions that may have crept in, and consolidate the strengths built on the gains already made, (b) to maintain sustained growth in the productivity and gainful employment, and (c) to attain international competitiveness. Therefore, the basic philosophy of the New IP, 1991 has been the continuity with change. Because, the new policy represents a renewed initiative towards consolidating the gains of national reconstruction at this crucial stage. But what is more important is the change (in continuity with change)—change in the attitude of the state towards the industrial society, change from centrally planned economy to market led economy, change from excessive government intervention to minimal intervention, change from nationalization to privatization, change from subsidization and cross-subsidization to gradual withdrawal of subsidy, etc. But these changes, which the government has introduced, represent a sharp departure from the earlier industrial policies. These changes pertain broadly to five areas viz.

1. Industrial licensing,
2. Public sector policy,
3. MRTP Act, 1969,
4. Foreign investment, and
5. Foreign technology agreements.

III. PRIVATIZATION

Majority of the industrial enterprises in the public sector have failed to achieve the desired result. Of course, a number of factors-internal and external, controllable and non- controllable are responsible for his precarious performance. A look at the history of public sector undertakings (PSUs) in the country reveals the continuous expansion in the role of PSUs. Consequently, a number of enterprises have been established and huge amount of borrowed capital has been employed by the state even in the non-core, non-strategic and not so essential area. Hence, the state has made a number of changes in its New Industrial Policy announced on July 24, 1991.

In the sixties and seventies, the public sector policy has been largely guided by Industrial Policy Resolution, 1956 which gave the public sector a strategic role in the economy. During the last four decades, massive investments have been made to build a public sector which has a commanding role in the economy. Today, many key sector of the economy are dominated by the mature public sector enterprises that have successfully expanded the production.

In the early post-Independence years, there was virtual consensus about the need for the government intervention in economic activities. Pandit Jawaharlal Nehru described the public sector as Temples of Modern India. At that time, virtually neither questioned the strategy nor raised any doubts about its implementation. The number of central public sector enterprises increased from 5 in the year 1951 to 240 by the end of 1995 and investments in public sector undertakings (PSUs) increased from Rs29 crore in 1951 to Rs. 1,72,438 crore by the end of 1995. They contributed nearly one third of our exports. They made significant contribution to import substitution. Government undertakings account for more that 70% of the work force employed in the organized sector. They have greatly reduced the imbalanced of regional development and have laid strong base for the rapid development of the country. Some of the PSUs have earned a reputation par excellence at the international level. Some giant public sector units (e.g., Indian Oil Corporation, Steel Authority of India, Oil and Natural Gas Commission, Hindustan Petroleum Corporation Ltd., Coal India Ltd and Bharat Petroleum Corporation Ltd) figure in Fortune International's large companies. Further, the public sector accounts for one-fourth of the country's GDP.

There are two million employees in government undertakings and the average emoluments per annum amount to more than Rs.50, 000 each. Besides paying higher salaries, public enterprises assure job security, good working condition, attractive incentive scheme, participative management, higher degree of safety, adequate facilities, etc.

The revolution of privatization started in 1980 and spread to many parts of the world. Several countries are privatizing their public sector enterprises. India is no exception to it. Privatization was meant to improve the performance of public enterprises. Privatization techniques have been tried in countries like Great Britain, China, US, Turkey, Brazil, Mexico, Japan, etc. Privatization, in the narrow sense, means transfer of ownership, or sale of public enterprises.

IV. GLOBALIZATION

The expansion of economic activities across political boundaries of nation states. More important, perhaps, it refers to a process of increasing economic integrated and growing economic interdependence between countries in the world economy. It is associated not only with an increasing cross- border movement of goods, services, capital technology information and people but also with an organization of economic activities which straddles national boundaries. This process is driven by the lure of profit and threat of competition in the market.

The term Globalization as such denotes adjustment of national economy with that of the world economy. It is conversion of a national market into international mobility of factors of production. In others words, it may be described as the integration of national economy with that of global economy.

An important attribute of Globalization is the increasing degree of openness, which has three dimensions, i.e.; international trade, international investment and international finance. According to World Development Report, Globalization reflects the progressive integration of world's economies.

The manifestation of production includes spatial reorganization of production the interpenetration of industries across borders, the spread of financial markets, and the diffusion of identical consumer goods to distant countries and massive transfer of population across national frontiers.

Globalization is a process of reaffirmation of faith in the markets, retaining the character of independence of a country. Here, the country follows a pragmatic policy with a shift in decision making from government to business. The market forces and the laws of economics will have greater importance than the political ideology. To make a country a successful partner in Globalization, the government must play a complimentary role.

The objectives of the role and impact on liberalization, privatization & globalization on Retail industry.

1. To study the pre liberalization, privatization & globalization (LPG) situation in India.
2. To study the post liberalization, privatization & globalization (LPG) situation in India.
3. To study the growth of retail industry in India.
4. To study the impact of liberalization, privatization & globalization (LPG).
5. To study scenario of Indian consumer retail industry.

The Important Reform Measures (Step Towards liberalization privatization and Globalization)

Indian economy had experienced major policy changes in early 1990s. The new economic reform, popularly known as, ***Liberalization, Privatization and Globalization*** (LPG model) aimed at making the Indian economy as fastest growing economy and globally competitive. The series of reforms undertaken with respect to industrial sector, trade as well as financial sector aimed at making the economy more efficient.

With the onset of reforms to liberalize the Indian economy in July of 1991, a new chapter has dawned for India and her billion plus population. This period of economic transition has had a tremendous impact on the overall economic development of almost all major sectors of the economy, and its effects over the last decade can hardly be overlooked. Besides, it also marks the advent of the real integration of the Indian economy into the global economy.

This era of reforms has also ushered in a remarkable change in the Indian mindset, as it deviates from the traditional values held since Independence in 1947, such as self reliance and socialistic policies of economic development, which mainly due to the inward looking restrictive form of governance, resulted in the isolation, overall backwardness and inefficiency of the economy, amongst a host of other problems. This, despite the fact that India has always had the potential to be on the fast track to prosperity.

Now that India is in the process of restructuring her economy, with aspirations of elevating herself from her present desolate position in the world, the need to speed up her economic development is even more imperative. And having witnessed the positive role that Foreign Direct Investment (FDI) has played in the rapid economic growth of most of the Southeast Asian countries and most notably China, India has embarked on an ambitious plan to emulate the successes of her neighbors to the east and is trying to sell herself as a safe and profitable destination for FDI.

Globalization has many meanings depending on the context and on the person who is talking about. Though the precise definition of globalization is still unavailable a few definitions are worth viewing, Guy Brainbant: says that the process of globalization not only includes opening up of world trade, development of advanced means of communication, internationalization of financial markets, growing importance of MNCs, population migrations and more generally increased mobility of persons, goods, capital, data and ideas but also infections, diseases and pollution. The term globalization refers to the integration of economies of the world through uninhibited trade and financial flows, as also through mutual exchange of technology and knowledge. Ideally, it also contains free inter-country movement of labor. In context to India, this implies opening up the economy to foreign direct investment by providing facilities to foreign companies to invest in different fields of economic activity in India, removing constraints and obstacles to the entry of MNCs in India, allowing Indian companies to enter into foreign collaborations and also encouraging them to set up joint ventures abroad; carrying out massive import liberalization programs by switching over from quantitative restrictions to tariffs and import duties, therefore globalization has been identified with the policy reforms of 1991 in India.

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Indian economy was in deep crisis in July 1991, when foreign currency reserves had plummeted to almost $1 billion; Inflation had roared to an annual rate of 17 percent; fiscal deficit was very high and had become unsustainable; foreign investors and NRIs had lost confidence in Indian Economy. Capital was flying out of the country and we were close to defaulting on loans. Along with these bottlenecks at home, many unforeseeable changes swept the economies of nations in Western and Eastern Europe, South East Asia, Latin America and elsewhere, around the same time. These were the economic compulsions at home and abroad that called for a complete overhauling of our economic policies and programs. Major measures initiated as a part of the liberalization and globalization strategy in the early nineties included the following:

Devaluation: The first step towards globalization was taken with the announcement of the devaluation of Indian currency by 18-19 percent against major currencies in the international foreign

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Devaluation: The first step towards globalization was taken with the announcement of the devaluation of Indian currency by 18-19 percent against major currencies in the international foreign exchange market. In fact, this measure was taken in order to resolve the BOP crisis.

Disinvestment-In order to make the process of globalization smooth, privatization and liberalization policies are moving along as well. ***Under the privatization scheme, most of the public sector undertakings have been/ are being sold to private sector.***

Dismantling of The Industrial Licensing Regime At present, only six industries are under compulsory licensing mainly on accounting of environmental safety and strategic considerations. A significantly amended location policy in tune with the ***liberalized*** licensing policy is in place. No industrial approval is required from the government for locations not falling within 25 kms of the periphery of cities having a population of more than one million.

Allowing Foreign Direct Investment (FDI) across a wide spectrum of industries and encouraging non-debt flows. The Department has put in place a liberal and transparent foreign investment regime where most activities are opened to foreign investment on automatic route without any limit on the extent of foreign ownership. Some of the recent initiatives taken to further ***liberalize the FDI regime,*** inter alias, include opening up of sectors such as Insurance (up to 26%); development of integrated townships (up to 100%); defense industry (up to 26%); tea plantation (up to 100% subject to divestment of 26% within five years to FDI); enhancement of FDI limits in private sector banking, allowing FDI up to 100% under the automatic route for most manufacturing activities in SEZs; opening up B2B e-commerce; Internet Service Providers (ISPs) without Gateways; electronic mail and voice mail to 100% foreign investment subject to 26% divestment condition; etc. The Department has also strengthened investment facilitation measures through Foreign Investment Implementation Authority (FIIA).

Non Resident Indian Scheme the general policy and facilities for foreign direct investment as available to foreign investors/ Companies are fully applicable to NRIs as well. In addition, Government has extended some concessions especially for NRIs and overseas corporate bodies having more than 60% stake by NRIs

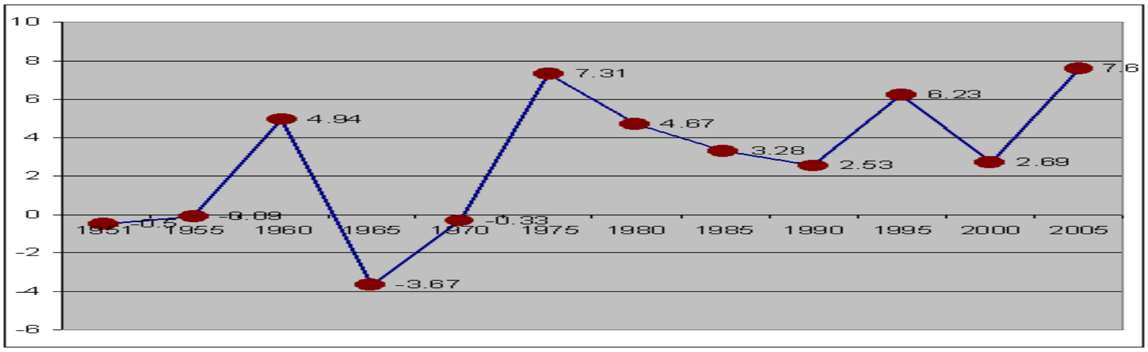
Throwing Open Industries Reserved For The Public Sector to Private Participation. Now there are only three industries reserved for the public sector.

Abolition of the (MRTP) Act, which necessitated prior approval for capacity expansion ***the removal of quantitative restrictions on imports.***

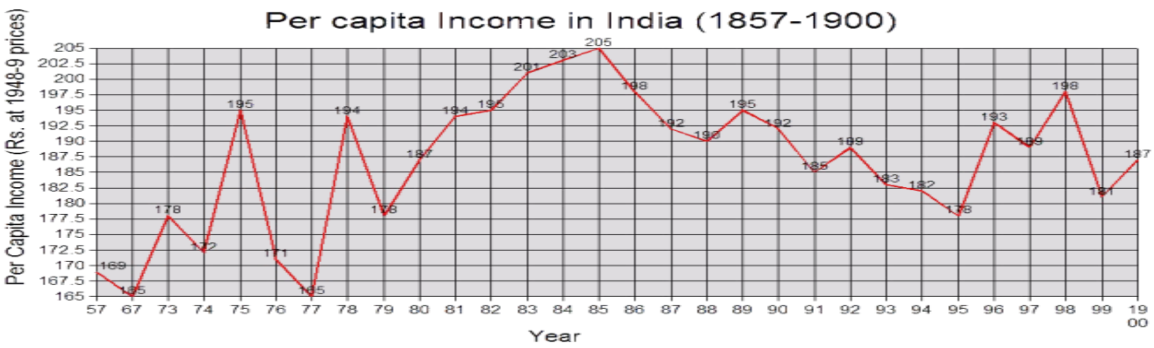
The reduction of the peak customs tariff from over 300 per cent prior to the 30 per cent rate that applies now.

Wide-ranging financial sector reforms in the banking, capital markets, and insurance sectors, including the deregulation of interest rates, strong regulation and supervisory systems, and the introduction of foreign/private sector competition.

Growth rate of India's real GDP per capita



Estimates of the Per Capita Income of India.



Important role & impact of LPG

India's retail industry accounts for 10 percent of its GDP and 8 percent of the employment to reach $17 billion by 2010. The Indian retail market is estimated at US$ 350 billion. But organised retail is estimated at only US$ 8 billion. However, the opportunity is huge-by 2010, organized retail is expected to grow at 6 per cent by 2010 and touch a retail business of $ 17 billion as against its current growth level of 3 per cent which at present is estimated to be $ 6 billion, according to the Study undertaken by The Associated Chambers of Commerce and Industry of India (ASSOCHAM). Indian retailing is clearly at a tipping point. India is currently the ninth largest retail market in the world. And it is names of small towns like Dehradun, Vijayawada, Lucknow and Nasik that will power India up the rankings soon. Organized retail in India has the potential to add over Rs. 2,000 billion (US$45 billion) business by the Year 2010 generating employment for some 2.5 million people in various retail operations and over 10 million additional workforce in retail support activities including contract production & processing, supply chain & logistics, retail real estate development & management etc.

It is estimated that it will cross the $650-billion mark by 2011, with an already estimated investment of around $421 billion slated for the next four years.

V. CONCLUSION

Economic liberalization has increased the responsibility and role of the private sector. At the same time, it has reduced the control of the government on economy affairs. It is expected that the reforms would liberalize the Indian economy enough to create a conducive environment for rapid economic development. The Ninth Five Year Plan, therefore, rightly observed, "The conditions that exist today, demand a decisive break from the past. The government has taken on itself too many responsibilities with the result that it not only encouraged a dependency syndrome among our people, but also imposed severe strains on financial and administrative capabilities of the government.

Private initiative whether individual, collective or community-based forms the essence of the development strategy articulated in the plan.

The process of reforms according to many economists and social scientists is not fast enough to achieve the goals. Jeffrey Sachs, director of Harvard University's centre for international development and a noted economist, pointed out that the reform process in India had a long way to go. He feels that without a focus on the "twin pillars" of social and economic strategies, the future would be bleak for India, especially in the context of competition all around.

Liberalization process is on the slow track. Government is expected to reduce and finally give up its involvement in economic matters and play a major role in providing the required socio-economic infrastructure. The government, however, is reluctant to give up its role of owning and controlling economic activities. At the same time its inability to spend for providing minimum health and education services. It is eager to spend on higher education without spending enough on primary and secondary education. It has failed in providing a corruption free administration, an essential precondition for increasing competitiveness.

Success of the economic reforms depends upon the commitment of all concerned – people, political parties, bureaucracy, and government – to the socio economic progress of the country.

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