A Critical Study on the Impact of Globalization in Indian Economy

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ABSTRACT

Globalization means the dismantling of trade barriers between nations and the integration of the nation's economies through financial flow, trade in goods and services, and corporate investments between nations. Globalization has increased across the world in recent years due to the fast progress that has been made in the field of technology especially in communications and transport. The government of India made changes in its economic policy in 1991 when it was in major crisis and foreign currency reserves went down to $1.2 billion in Jan 1991. Then government decided to give green flag to direct foreign investments in the country. 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. The benefits of the effects of globalization in the Indian Industry are that many foreign companies set up industries in India, especially in the pharmaceutical, BPO, petroleum, manufacturing, and chemical sectors and this helped to provide employment to many people in the country. This helped reduce the level of unemployment and poverty in the country.

Keywords: *Globalization, Indian Economy, Economy Reform, Economic Growth*

Introduction

The two largest and most populous countries, China and India, have been reporting a rate of growth in GDP which is considerably above the global average. This period of rapid growth in both these countries, coincides substantially with the current phase of globalization (dating from around the late 1970s), giving credence to the view that globalization has acted as a significant stimulant to the growth rate in both countries.

Globalization generally means integrating economy of our nation with the world economy. The economic changes initiated have had a dramatic effect on the overall growth of the economy. It also heralded the integration of the Indian economy into the global economy. Globalization had its impact on various sectors including Agricultural, Industrial, Financial, Health sector and many others. It was only after the LPG policy i.e. Liberalization, Privatization and Globalization launched by the then Finance Minister Man Mohan Singh that India saw its development in various sectors.

Globalization describes a process by which regional economies, societies, and cultures have become integrated through a global network of communication, transportation, and trade. The term is sometimes used to refer specifically to economic globalization: the integration of national economies into the international economy through trade, foreign direct investment, capital flows, migration, and the spread of technology. "Globalization can be defined as the intensification of worldwide social relations which link distant locations in such a way that local happenings are shaped by events occurring many miles away and vice – versa."

Objective of the Study

- To understand the meaning of globalization.
- To analyze the Economic performance and growth of India due to globalization in the current pace.
- To analyze the impact of globalization on positive and negative side.
- To analyze the pitfalls of globalization.
- To estimate the future of the Indian economy.

Introduction of New Economic Policy

After suffering a huge financial and economic crisis Dr. Man Mohan Singh brought a new policy which is known as Liberalization, Privatization and Globalization Policy (LPG Policy) also known as New Economic Policy, 1991 as it was a measure to come out of the crisis that was going on at that time. The New Economic Policy (NEP-1991) introduced changes in the areas of trade policies, monetary & financial policies, fiscal & budgetary policies, and pricing & institutional reforms. The salient features of NEP-1991 are (i) liberalization (internal and external), (ii) extending privatization, (iii) redirecting scarce Public Sector Resources to Areas where the private sector is unlikely to enter, (iv) globalization of economy, and (v) market friendly state.

The Important Reform Measures-The following measures were taken to liberalize and globalize the economy:

1. **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

2. **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 been sold to private sectors.

3. **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 vocational 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.

4. **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 (upto 26%); development of integrated townships (upto 100%); defense industry (upto 26%); tea plantation (upto 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).

5. **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.

6. **Throwing open industries reserved for the public sector to private participation**- Now there are only three industries reserved for the public sector.

7. **Abolition of the (MRTP) Act**, which necessitated prior approval for capacity expansion.

8. The removal of quantitative restrictions on imports

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

10. Severs restrictions on short-term debt allowing external commercial borrowings based on external debt sustainability.

11. 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

Impact of Globalization

The liberalization of India's economy was adopted by India in 1991. Facing a severe economic crisis, India approached the IMF for a loan, and the IMF granted what is called a 'structural adjustment' loan, which is a loan with certain conditions attached which relate to a structural change in the economy. Essentially, the reforms sought to gradually phase out government control of the market (liberalization), privatize public sector organizations (privatization), and reduce export subsidies and import barriers to enable free trade (globalization).

Though some economic reforms were introduced by the Rajiv Gandhi government (1985-89), it was the Narasimha Rao Government that gave a definite shape and start to the new economic reforms of globalization in India. Presenting the 1991-92 Budgets, Finance Minister Manmohan Singh said: After four decades of planning for industrialization, we have now reached a stage where we should welcome, rather fear, foreign investment. Direct foreign investment would provide access to capital, technology and market.

Impact on Employment

According to the theory of the relative comparative advantages, both trade and FDI should take advantage of the abundance of labour and so trigger a trend of specialization in domestic labour-intensive activities and so involve an expansion in local employment. When a developing country opens its borders to foreign capital, FDIs generate positive employment impacts both directly and indirectly through job creation within suppliers and retailers and also a tertiary employment effect through generating additional incomes and so increasing aggregate demand. As far as FDI is concerned, the author finds out that the impact of FDI on employment is increasing with per-capita income.

Impact on Poverty Alleviation

As far as poverty reduction is concerned, globalization is supposed to be beneficial to economic growth and so given the expected overall neutrality in terms of their impact on income distribution. Globalization should be a way to achieve poverty reduction. Indeed, most developing countries experienced a significant reduction in the proportion of their population living below the poverty line, including fast globalizing country India. To conclude that the relationship between globalization and poverty alleviation has a one to one nature as implied.

Impact on Industrial Sector

Effects of Globalization on Indian Industry started when the government opened the country's markets to foreign investments in the early 1990s. Globalization of the Indian Industry took place in its various sectors such as steel, pharmaceutical, petroleum, chemical, textile, cement, retail, and BPO. Also the benefit of the Effects of Globalization on Indian Industry are that the foreign companies brought in highly advanced technology with them and this helped to make the Indian Industry more technologically advanced.

The negative Effects of Globalization on Indian Industry are that with the coming of technology the number of labor required decreased and this resulted in many people being removed from their jobs. This happened mainly in the pharmaceutical, chemical, manufacturing, and cement industries.

Impact on Financial Sector

Reforms of the financial sector constitute the most important component of India's programme towards economic liberalization. The recent economic liberalization measures have opened the door to foreign competitors to enter into our domestic market. Innovation has become a must for survival. Financial intermediaries have come out of their traditional approach and they are ready to assume more credit risks. As a consequence, many innovations have taken place in the global financial sectors which have its own impact on the domestic sector also. The emergences of various financial institutions and regulatory bodies have transformed the financial services sector from being a conservative industry to a very dynamic one. In this process this sector is facing a number of challenges. In this changed context, the financial services industry in India has to play a very positive and dynamic role in the years to come by offering many innovative products to suit the varied requirements of the millions of prospective investors spread throughout the country. Reforms of the financial sector constitute the most important component of India's programme towards economic liberalization.

Growth in financial services (comprising banking, insurance, real estate and business services), after dipping to 5.6% in 2003-04 bounced back to 8.7% in 2004-05 and 10.9% in 2005-06. The momentum has been maintained with a growth of 11.1% in 2006-07. Because of Globalization, the financial services industry is in a period of transition. Market shifts, competition, and technological developments are ushering in unprecedented changes in the global financial services industry.

Impact on Export and Import

India's Export and Import in the year 2001-02 was to the extent of 32,572 and 38,362 million respectively. Many Indian companies have started becoming respectable players in the International scene. Agriculture exports account for about 13 to 18% of total annual of annual export of the country. In 2000-01 Agricultural products valued at more than US $ 6million were exported from the country 23% of which was contributed by the marine products alone. Marine products in recent years have emerged as the single largest contributor to the total agricultural export from the country accounting for over one fifth of the total agricultural exports. Cereals (mostly basmati rice and non-basmati rice), oil seeds, tea and coffee are the other prominent products each of which accounts for nearly 5 to 10% of the country's total agricultural exports.

Growth of GDP

The economic scenario in India has been pretty stable over the last 5 years. Despite the economic downturn two years back the Indian economy has managed to remain stable. The India GDP recorded for the period December 2010 stood at 7.4 percent.

However according to the (CMIE) or Centre for Monitoring Indian Economy India will record a GDP of 10.4 per cent in the year 2011. India's GDP growth 2010 - 2011 has not been phenomenal but is certainly encouraging. In current the GDP of India is

Growth of Foreign Exchange Reserves

India's foreign exchange reserves have grown significantly since 1991. The reserves, which stood at US$ 5.8 billion at end-March 1991 increased gradually to US$ 54.1 billion by end-March 2002, after which it rose steadily reaching a level of US$ 309.7 billion in March 2008. The reserves declined to US$ 252.0 billion in March 2009. The reserves stood at US$ 292.9 billion as on September 30, 2010 compared to US $ 279.1billion as on March 31, 2010.

Growth of FDI

During April-February 2010-11, Mauritius has led investors into India with US$ 6,637 million worth of FDI comprising 42 per cent of the total FDI equity inflows into the country. The FDI equity inflows from Mauritius is followed by Singapore at US$ 1,641 million and the US with US$ 1,120 million, according to data released by DIPP. India has been ranked at the second place in global foreign direct investments in 2010 and will continue to remain among the top five attractive destinations for international investors during 2010-12 , according to United Nations Conference on Trade and Development (UNCTAD) in a report on world investment prospects titled, 'World Investment Prospects Survey 2009-2012'. India attracted FDI equity inflows of US$ 1,274 million in February 2011. The cumulative amount of FDI equity inflows from April 2000 to February 2011 stood at US$ 128.642 billion, according to the data released by the Department of Industrial Policy and Promotion (DIPP).

The services sector comprising financial and non-financial services attracted 21 per cent of the total FDI equity inflow into India, with FDI worth US$ 3,274 million during April-February 2010-11, while telecommunications including radio paging, cellular mobile and basic telephone services attracted second largest amount of FDI worth US$ 1,410 million during the same period. Housing and Real Estate industry was the third highest sector attracting FDI worth US$ 1,109 million followed by power sector which garnered US$ 1,237 million during April-December 2010-11. The Automobile sector received FDI worth US$ 1,320 million.

Growth of Capital Market

In respect of market capitalization (which takes into account the market value of a quoted company by multiplying its current share price by the number of shares in issue), India is in the fourth position with $ 894 billion after the US ($ 17,000 billion), Japan ($ 4800 billion) and China ($ 1000). India is expected to soon cross the trillion dollar mark.

Growth in the Number of Billionaires

India, presently with exactly 55 "dollar-billionaires" (individuals with a total net worth of one billion dollars and above), accounts for roughly 4.5% of the global total of 1210 billionaires across the six continents. The number of billionaires of India has risen to 40 (from 36 last year) more than those of Japan (24), China (17), France (14) and Italy (14) this year. A press report was jubilant: This is the richest year for India. The combined wealth of the Indian billionaires marked an increase of 60 per cent from $ 106 billion in 2006 to $ 170 billion in 2007. The 40 Indian billionaires have assets worth about Rs. 7.50 lakh crores whereas the cumulative investment in the 91 Public Sector Undertakings by the Central Government of India is Rs. 3.93 lakh crores only.

Advantages of Globalization

- There is an International market for companies and for consumers there is a wider range of products to choose from.
- Increase in flow of investments from developed countries to developing countries, which can be used for economic reconstruction.
- Greater and faster flow of information between countries and greater cultural interaction has helped to overcome cultural barriers.
- Technological development has resulted in reverse brain drain in developing countries.

Demerits of Globalization

- The outsourcing of jobs to developing countries has resulted in loss of jobs in developed countries.
- There is a greater threat of spread of communicable diseases.
- There is an underlying threat of multinational corporations with immense power ruling the globe.
- For smaller developing nations at the receiving end, it could indirectly lead to a subtle form of colonization.
- The number of rural landless families increased from 35 %in 1987 to 45 % in 1999, further to 55% in 2005. The farmers are destined to die of starvation or suicide.

Future of Indian Economy: Future Challenges

- Experts believe that the contribution of India in the world GDP is estimated to increase from 6% to 11% by the year 2025, while on the flip side the contribution of US in world GDP is presumed to decline from 21% to 18%. This indicates towards the emergence of India as the third biggest global economy after US and China. The evaluation is supported by the overall development in all the sectors in India.
- Sustaining the growth momentum and achieving an annual average growth of 9-10 % in the next five years.
- Simplifying procedures and relaxing entry barriers for business activities and Providing investor friendly laws and tax system.
- Boosting agricultural growth through diversification and development of agro processing.
- Expanding industry fast, by at least 10% per year to integrate not only the surplus labour in agriculture but also the unprecedented number of women and teenagers joining the labour force every year.
- Developing world-class infrastructure for sustaining growth in all the sectors of the economy
- Allowing foreign investment in more areas.
- Effecting fiscal consolidation and eliminating the revenue deficit through revenue enhancement and expenditure management.
- Some regard globalization as the spread of western culture and influence at the expense of local culture. Protecting domestic culture is also a challenge.
- Global corporations are responsible for global warming, the depletion of natural resources, and the production of harmful chemicals and the destruction of organic agriculture.
- The government should reduce its budget deficit through proper pricing mechanisms and better direction of subsidies.
- Empowering the population through universal education and health care, India must maximize the benefits of its youthful demographics and turn itself into the

knowledge hub of the world through the application of information and communications technology (ICT) in all aspects of Indian life although, the government is committed to furthering economic reforms and developing basic infrastructure to improve lives of the rural poor and boost economic performance. Government had reduced its controls on foreign trade and investment in some areas and has indicated more liberalization in civil aviation, telecom and insurance sector in the future.

Conclusion

Until the liberalization of 1991, India was largely and intentionally isolated from the world markets, to protect its fledgling economy and to achieve self-reliance. Foreign trade was subject to import tariffs, export taxes and quantitative restrictions, while foreign direct investment was restricted by upper-limit equity participation, restrictions on technology transfer, export obligations and government approvals; these approvals were needed for nearly 60% of new FDI in the industrial sector. The restrictions ensured that FDI averaged only around $200M annually between 1985 and 1991; a large percentage of the capital flows consisted of foreign aid, commercial borrowing and deposits of non-resident Indians. For those who predicted otherwise, India is one of the fastest growing countries today. India currently accounts for 2.7% of World Trade (as of 2015), up from 1.2% in 2006 according to the World Trade Organization (WTO).

The Economy of India is the seventh-largest in the world by nominal GDP and the third-largest by purchasing power parity (PPP). It has the potential to become the world's 3rd-largest economy by the next decade, and one of the largest economies by mid-century. As far as the economic scenario is concerned India is surely on a roll. The last twenty years have really proved extremely beneficial for India. After the implementation of NEP 91 (new economic policy 1991) India showed drastic economic growth. Over time, India has adopted a number of FDI reforms and attracted pool of investments.

The phenomenal growth in economy and FDI are the result of LPG (liberalization, privatization and **globalization**). Apart from this Globalization has helped in:

- Raising living standards,
- Alleviating poverty, creating jobs
- Assuring food security,
- Availing global products in local market,
- Generating buoyant market for expansion of industry and services, and
- Making substantial contribution to the national economic growth, etc.

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