

## GLOBALIZATION AND ITS IMPACT ON INDIAN ECONOMY

Dr. Saroj Choudhary

Jiwaji University, Gwalior, M.P., India

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### ABSTRACT

*Globalisation is the new buzzword that has come to dominate the world since the nineties of the last century with the end of the cold war and the break-up of the former Soviet Union and the global trend towards the rolling ball. The frontiers of the state with increased reliance on the market economy and renewed faith in the private capital and resources, a process of structural adjustment spurred by the studies and influences of the World Bank and other International organisations have started in many of the developing countries. Also Globalisation has brought in new opportunities to developing countries. The government should take immediate steps to increase agricultural production and create additional employment opportunities in the rural parts, to reduce the growing inequality between urban and rural areas and to decentralize powers and resources to the panchayati raj institutions for implementing all works of rural development. Steps should be taken for early linking of the rivers, especially in the south-bound ones, for supply of the much-needed water for irrigation.*

*Key Words: Globalisation, World, State and Resources.*

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### INTRODUCTION:

Greater access to developed country markets and technology transfer hold out promise improved productivity and higher living standard. But globalisation has also thrown up new challenges like growing inequality across and within nations, volatility in financial market and environmental deteriorations. Another negative aspect of globalisation is that a great majority of developing countries remain removed from the process. Till the nineties the process of globalisation of the Indian economy was constrained by the barriers to trade and investment liberalisation of trade, investment and financial flows initiated in the nineties has progressively lowered the barriers to competition and hastened the pace of globalisation.

Though the precise definition of globalisation is still unavailable a few definitions worth viewing, Stephen Gill: defines globalisation as the reduction of transaction cost of transborder movements of capital and goods thus of factors of production and goods. Guy Brainbant: says that the process of globalisation not only includes opening up of world trade, development of advanced means of communication, internationalisation of financial markets, growing

importance of MNC's, population migrations and more generally increased mobility of persons, goods, capital, data and ideas but also infections, diseases and pollution.

India opened up the economy in the early nineties following a major crisis that led by a foreign exchange crunch that dragged the economy close to defaulting on loans. The response was a slew of Domestic and external sector policy measures partly prompted by the immediate needs and partly by the demand of the multilateral organisations. The new policy regime radically pushed forward in favour of a more open and market oriented economy.

Major measures initiated as a part of the liberalisation and globalisation strategy in the early nineties included scrapping of the industrial licensing regime, reduction in the number of areas reserved for the public sector, amendment of the monopolies and the restrictive trade practices act, start of the privatisation programme, reduction in tariff rates and change over to market determined exchange rates.

Over the years there has been a steady liberalisation of the current account transactions, more and more sectors opened up for foreign direct investments and portfolio investments facilitating entry of foreign investors in telecom, roads, ports, airports, insurance and other major sectors.

The Indian tariff rates reduced sharply over the decade from a weighted average of 72.5% in 1991-92 to 24.6 in 1996-97. Though tariff rates went up slowly in the late nineties it touched 35.1% in 2001-02. India is committed to reduced tariff rates. Peak tariff rates are to be reduced to be reduced to the minimum with a peak rate of 20%, in another 2 years most non-tariff barriers have been dismantled by March 2002, including almost all quantitative restrictions.

### **India is Global:**

The liberalisation of the domestic economy and the increasing integration of India with the global economy have helped step up GDP growth rates, which picked up from 5.6% in 1990-91 to a peak level of 77.8% in 1996-97. Growth rates have slowed down since the country has still been able to achieve 5-6% growth rate in three of the last six years. Though growth rates has slumped to the lowest level 4.3% in 2002-03 mainly because of the worst droughts in two decades the growth rates are expected to go up close to 70% in 2003-04. A Global comparison shows that India is now the fastest growing just after China.

This is major improvement given that India's growth rate in the 1970's was very low at 3% and GDP growth in countries like Brazil, Indonesia, Korea, and Mexico was more than twice that of India. Though India's average annual growth rate almost doubled in the eighties to 5.9% it was still lower than the growth rate in China, Korea and Indonesia. The pickup in GDP growth has helped improve India's global position. Consequently India's position in the global economy has improved from the 8<sup>th</sup> position in 1991 to 4<sup>th</sup> place in 2001. When GDP is calculated on a purchasing power parity basis.

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

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 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 locational 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 alia, 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:

1. Abolition of the (MRTP) Act, which necessitated prior approval for capacity expansion.
2. The removal of quantitative restrictions on imports.
3. 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.

## IMPACT OF GLOBALIZATION ON INDIAN ECONOMY:

Where does India stand in terms of Global Integration?

India clearly lags in globalisation. Number of countries has a clear lead among them China, large part of east and far east Asia and Eastern Europe. Let's look at a few indicators how much we lag.

1. Over the past decade FDI flows into India have averaged around 0.5% of GDP against 5% for China 5.5% for Brazil. Whereas FDI inflows into China now exceeds US \$ 50 billion annually. It is only US \$ 4 billion in the case of India
2. Consider global trade - India's share of world merchandise exports increased from .05% to .07% over the past 20 years. Over the same period China's share has tripled to almost 4%.
3. India's share of global trade is similar to that of the Philippines an economy 6 times smaller according to IMF estimates. India under trades by 70-80% given its size, proximity to markets and labour cost advantages.
4. It is interesting to note the remark made last year by Mr. Bimal Jalan, Governor of RBI. Despite all the talk, we are now where ever close being globalised in terms of any commonly used indicator of globalisation. In fact we are one of the least globalised among the major countries - however we look at it.
5. As Amartya Sen and many other have pointed out that India, as a geographical, politico-cultural entity has been interacting with the outside world throughout history and still continues to do so. It has to adapt, assimilate and contribute. This goes without saying even as we move into what is called a globalised world which is distinguished from previous eras from by faster travel and communication, greater trade linkages, denting of political and economic sovereignty and greater acceptance of democracy as a way of life.

## CONSEQUENCES:

The implications of globalisation for a national economy are many. Globalisation has intensified interdependence and competition between economies in the world market. This is reflected in interdependence in regard to trading in goods and services and in movement of capital. As a result domestic economic developments are not determined entirely by domestic policies and market conditions. Rather, they are influenced by both domestic and international policies and

economic conditions. It is thus clear that a globalising economy, while formulating and evaluating its domestic policy cannot afford to ignore the possible actions and reactions of policies and developments in the rest of the world. This constrained the policy option available to the government which implies loss of policy autonomy to some extent, in decision-making at the national level.

#### THE DARK SIDE OF GLOBALIZATION:

On the other side of the medal, there is a long list of the worst of the times, the foremost casualty being the agriculture sector. Agriculture has been and still remains the backbone of the Indian economy. It plays a vital role not only in providing food and nutrition to the people, but also in the supply of raw material to industries and to export trade. In 1951, agriculture provided employment to 72 per cent of the population and contributed 59 per cent of the gross domestic product. However, by 2001 the population depending upon agriculture came to 58 per cent whereas the share of agriculture in the GDP went down drastically to 24 per cent and further to 22 per cent in 2006-07. This has resulted in a lowering the per capita income of the farmers and increasing the rural indebtedness.

The agricultural growth of 3.2 per cent observed from 1980 to 1997 decelerated to two per cent subsequently. The Approach to the Eleventh Five Year Plan released in December 2006 stated that the growth rate of agricultural GDP including forestry and fishing is likely to be below two per cent in the Tenth Plan period.

The reasons for the deceleration of the growth of agriculture are given in the Economic Survey 2006-07: Low investment, imbalance in fertilizer use, low seeds replacement rate, a distorted incentive system and low post-harvest value addition continued to be a drag on the sectors performance. With more than half the population directly depending on this sector, low agricultural growth has serious implications for the inclusiveness of growth.

The number of rural landless families increased from 35 per cent in 1987 to 45 per cent in 1999, further to 55 per cent in 2005. The farmers are destined to die of starvation or suicide. Replying to the Short Duration Discussion on Import of Wheat and Agrarian Distress on May 18, 2006, Agriculture Minister Sharad Pawar informed the Rajya Sabha that roughly 1,00,000 farmers committed suicide during the period 1993-2003 mainly due to indebtedness.



In his interview to The Indian Express on November 15, 2005, Sharad Pawar said: The farming community has been ignored in this country and especially so over the last eight to ten years. The total investment in the agriculture sector is going down. In the last few years, the average budgetary provision from the Indian Government for irrigation is less than 0.35 percent.

During the post-reform period, India has been shining brilliantly with a growing number of billionaires. Nobody has taken note of the sufferings of the family members of those unfortunate hundred thousand farmers.

Further, the proportion of people depending in India on agriculture is about 60 % whereas the same for the UK is 2 %, USA 2 % and Japan 3 %. The developed countries, having a low proportion of population in agriculture, have readily adopted globalization which favors more the growth of the manufacturing and service sectors.

#### SOCIAL SERVICES:

About the quality of education given to children, the Approach to the Eleventh Five Year Plan stated: A recent study has found that 38 per cent of the children who have completed four years of schooling cannot read a small paragraph with short sentences meant to be read by a student of Class II. About 55 per cent of such children cannot divide a three digit number by a one digit number. These are indicators of serious learning problems which must be addressed.

The Approach paper added further: Universalisation of education will not suffice in the knowledge economy. A person with a mere eight years of schooling will be as disadvantaged in a knowledge economy by ICT as an illiterate person in modern industry and services.

The less said about the achievements in health the better. The Approach to the Eleventh Plan concedes that progress implementing the objectives of health have been slow. The Report gave the particulars of the rates of infant mortality (per 1000 live births) for India as 60 against Sri Lanka (13), China (30) and Vietnam (19). The rate of maternal mortality (per 1, 00,000 deliveries) of India is 407 against Sri Lanka (92), China (56) and Vietnam (130).

### GROWTH OF SLUM CAPITALS:

In his 2007-08 Budget Speech, Finance Minister Chidambaram put forth a proposal to promote Mumbai as a world class financial centre and to make financial services the next growth engine of India.

Of its 13 million populations, Mumbai city has 54 per cent in slums. It is estimated that 100 to 300 new families come to Mumbai every day and most land up in a slum colony. Prof R. N. Sharma of the Tata Institute of Social Science says that Mumbai is disintegrating into slums. From being known as the slum capital of India and the biggest slum of Asia, Mumbai is all set to become the slum capital of the world.

The population of Delhi is about 14 million of which nearly 45 per cent population lives in slums, unauthorized colonies, JJ clusters and undeveloped rural parts. During dry weather these slum dwellers use open areas around their units for defecation and the entire human waste generated from the slums along with the additional wastewater from their households is discharged untreated into the river Yamuna.

The cumulative FDI inflows (until September 2006) to the New Delhi region were of Rs. 27,369 crores and to Mumbai Rs. 24,545 crores. The two spots of New Delhi and Mumbai received 46 per cent of the total FDI inflows into India.

The FDI inflows have in no way assisted in improving the health and environment conditions of the people. On the other hand, the financial capital of India and the political capital of India are set to become the topmost slum cities of the world.

### VICTIMS OF GLOBALIZATION:

In his Making Globalization Work, Nobel Laureate Stiglitz wrote: Trade liberalization opening up markets to the free flow of goods and services was supposed to lead to growth. The evidence is at best mixed. Part of the reason that international trade agreements have been so unsuccessful in promoting growth in poor countries is that they were often unbalanced. The advanced industrial countries were allowed to levy tariffs on goods produced by developing countries that were, on average, four times higher than those on goods produced by other advanced industrial countries.



In his foreword to *The Dynamics and Impact of Globalization* by Dr. M. V. Louis Anthuvan, Justice V. R. Krishna Iyer pointed out pithily: The New World Order is the product of what is now familiarly described as globalization, liberalization and privatization. The weaker sectors like the Asian and African countries are victims, whose economic welfare is slavery, at the disposal of the White world. When World War II came to a close, commercial conquest and trade triumph became the major goal of the United States and the other giant trade powers. Indeed, these mighty countries and companies even made world hunger as Big Business. The poorer countries with natural resources have been made banana republic's and cucumber vassals. Globalization has given rise to a protracted debate over the precise direction of trends in global income distribution. What is sometimes lost sight of is the sheer depth of inequality and the associated potential for greater equity to accelerate poverty reduction. Measured in the 2000 purchasing power parity (PPP) terms, the gap between the incomes of the poorest 20 per cent of the world's population and the \$ 1 a day poverty line amounts to about \$ 300 billion. That figure appears large, but it is less than two per cent of the income of the world's wealthiest 10 per cent.

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