

Impact of globalization on the Indian Economy

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Abstract-Globalization means economic globalization of economy of a country and it exert pressure on the government to become more publicly accountable, competitive and responsive to citizens. The UN document defines globalization as „ increased and intensified flows between countries“. These flows are of goods, services, capital, ideas, information and people, which produce national cross-border integration of a number of economic, social and cultural activities. The primary objective of liberalization is to free from the restrictions on production, expansion and following of rigid rules and regulations. This paper attempts to examine the impact of globalization on the Indian economy and provide a framework for administration to circumvent the overbearing effect of globalization in their efforts towards industrialization, economic growth and development. The study is based on primary as well as on secondary data and it is of descriptive type.

Keywords - Liberalization, Privatization, Globalization, Universialiation.

INTRODUCTION

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 MNC's, 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.

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 (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).

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.

Impact of Globalization of Indian Economy:

The novel Tale of Two Cities of Charles Dickens begins with a piquant description of the contradictions of the times: “It was the best of times, it was the worst of times; it was the age of wisdom, it was the age of foolishness; it was the epoch of belief, it was the epoch of incredulity;... we had everything before us, we had nothing before us...” At the present, we can also say about the tale of two Indias: “We have the best of times; we have the worst of times. There is sparkling prosperity, there is stinking poverty. We have dazzling five star hotels side by side with darkened ill-starred hovels. We have everything by globalization, we have nothing by 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 Budget, 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.”

In the Memorandum of Economic Policies dated August 27, 1991 to the IMF, the Finance Minister submitted in the concluding paragraph: “The Government of India believes that the policies set forth in the Memorandum are adequate to achieve the objectives of the program, but will take any additional measures appropriate for this purpose. In addition, the Government will consult with the Fund on the adoption of any measures that may be appropriate in accordance with the policies of the Fund on such consultations.” The Government of India affirmed to implement the economic reforms in consultation with the international bank and “in accordance’ of its policies. Successive coalition government from 1996 to 2004, led by Janata Dal and BJP, adopted faithfully the economic policy of Liberalization. With Manmohan Singh returned to power as the Prime Minister in 2004, the economic policy initiated by him has become the lodestar of the fiscal outlook of the Government.

The Bright Side of Globalization:

The rate of growth of the Gross Domestic Product of India has been on the increase from 5.6 per cent during 1980-90 to seven per cent in the 1993-2001 period. In the last four years, the annual growth rate of the GDP

was impressive at 7.5 per cent (2003-04), 8.5 per cent (2004-05), nine per cent (2005-06) and 9.2 per cent (2006-07). Prime Minister Manmohan Singh is confident of having a 10 per cent growth in the GDP in the Eleventh Five Year Plan period. The foreign exchange reserves (as at the end of the financial year) were \$ 39 billion (2000-01), \$ 107 billion (2003-04), \$ 145 billion (2005-06) and \$ 180 billion (in February 2007). It is expected that India will cross the \$ 200 billion mark soon. The cumulative FDI inflows from 1991 to September 2006 were Rs. 1, 81,566 crores (US \$ 43.29 billion). The sectors attracting highest FDI inflows are electrical equipments including computer software and electronics (18 per cent), service sector (13 per cent), telecommunications (10 per cent), transportation industry (nine per cent), etc. In the inflow of FDI, India has surpassed South Korea to become the fourth largest recipient.

India controls at the present 45 per cent of the global outsourcing market with an estimated income of \$ 50 billion.

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. As per the Forbes list for 2007, 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.

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 sector’s 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 ‘Impact of Wheat and Agrarian Distress’ on May 18, 2006, Agriculture Minister Sharad Pawar informed the Rajya Sabha that roughly 1,00,000 farmer 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.

About the plight of agriculture in developing countries, Nobel Prize-winning economist Joseph Stiglitz said: “Trade agreements now forbid most subsidies excepted for agricultural goods. This depresses incomes of those farmers in the developing countries who do not get subsidies. And since 70 per cent of those in the developing countries depend directly or indirectly on agriculture, this means that the incomes of the developing countries are depressed. But by whatever standard one uses, today’s international trading regime is unfair to developing countries.” He also pointed out: “The average European cow gets a subsidy of \$ 2 a day (the World Bank measure of poverty); more than half the people in the developing world live on less than that. It appears that it is better to be a cow in Europe than to be a poor person in a developing country.”

Demoting Agriculture:

The Economic Survey reports released till 1991 contained the Chapters in the following order: (1) Introduction, (2) Agricultural Production, (3) Industrial Performance and Policies, (4) Infrastructure, (5) Human Resources, (6) Prices, Price Policy and Public Distribution System, (7) Fiscal Policy and Government Budget, (8) Monetary and Credit Developments, (9) The External Sector and (10) Problems and Prospects. In the Economic Survey 1991-92, Finance Minister Manmohan Singh recast the Chapters in the following order: (1) Introduction, (2) Public Finance, (3) Money and Credit, (4) Prices and Distribution, (5) Balance of Payments, (6) Industry, (7) Agriculture, (8) Infrastructure and (9) Social Sectors. It is not known as to why the finance minister demoted the importance of agriculture that has about 90 per cent population from the second place to the seventh in the annual Economic Survey of the country. In a way does it symbolize the low importance deliberately given to the growth of the agriculture sector in the scheme of globalization?

Strategy of Globalization:

In the Report (2006) ‘East Asian Renaissance’, World Bank Advisor Dr Indermit Gill stated: “Cities are at the core of a development strategy based on international integration, investment and innovation. East Asia is witnessing the largest rural-to-urban shift

of population in history. Two million new urban dwellers are expected in East Asian cities every month for the next 20 years. This will mean planning for and building dynamic, connected cities that are linked both domestically and to the outside world so that economic growth continues and social cohesion is strengthened.” The market economy seems to be more concerned with the growth of consumerism to attract the high income groups who are mostly in the cities in the developing countries. Rural economy and the agricultural sector were out of focus in the strategy of globalization.

Growth of Unemployment – Poverty

The proportion of the unemployed to the total labor force has been increasing from 2.62 per cent (1993-94) to 2.78 per cent (1999-2000) and 3.06 per cent (2004-05). In absolute figures, the number of unemployed had been in those years 9.02 million, and 13.10 million respectively.

(Economic Survey 2006-07, Table 10.4)

In reply to a question, the Minister for Labor and Employment informed the Lok Sabha on March 19, 2007, that the enrolment of the unemployed in the Employment Exchanges in 2006-07 was 79 lakhs against the average of 58 lakhs in the past ten years.

About the impact of globalization, in particular on the development of India, the ILO Report (2004) stated: “In India, there had been winners and losers. The lives of the educated and the rich had been enriched by globalization. The information technology (IT) sector was a particular beneficiary. But the benefits had not yet reached the majority, and new risks had cropped up for the losers—the socially deprived and the rural poor. Significant numbers of ‘non-perennial’ poor, who had worked hard to escape poverty, were finding their gains reversed. Power was shifting from elected local institutions to unaccountable trans-national bodies. Western perceptions, which dominated the globe media, were not aligned with local perspectives; they encouraged consumerism in the midst of extreme poverty and posed a threat to cultural and linguistic diversity.”

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 population, 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 was 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 republics and cucumber vassals. The Human Development Report 2006 recorded: “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.”

To make Globalization Work:

Under the phenomenal growth of information technology which has shrunk space and time and reduced the cost of moving information, goods and capital across the globe, the globalization has brought unprecedented opportunities for human development

for all, in developing as well as developed countries. Under the commercial marketing forces, globalization has been used more to promote economic growth to yield profits to some countries and to some groups within a country. India should pay immediate attention to ensure rapid development in education, health, water and sanitation, labor and employment so that under time-bound programmes the targets are completed without delay. A strong foundation of human development of all people is essential for the social, political and economic development of the country.

CONCLUSION

Though at present India appears to be dominant in some fields of development as in IT-ITES, this prosperity may be challenged by other competing countries which are equipping themselves with better standards of higher education. As detailed earlier, our progress in education has been slow and superficial, without depth and quality, to compete the international standards.

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.

It should be remembered that without a sustainable and productive growth of the agricultural sector, the other types of development in any sphere will be unstable and illusory.

Despite the concerted development in manufacturing and service sectors, despite the remarkable inflow and overflow of foreign reserves, agriculture is still the largest industry providing employment to about 60 per cent of the workforce in the country.

Mere growth of the GDP and others at the macro level in billions does not solve the chronic poverty and backward level of living norms of the people at the micro level. The growth should be sustainable with human development and decent employment potential. The welfare of a country does not percolate from the top, but should be built upon development from the bottom.

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