IMPACT OF GLOBALIZATION ON INDIAN ECONOMY

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ABSTRACT

The growing integration of economies and societies around the world – has been one of the most hotly – debated topics in international economics over the past few years. Rapid growth and poverty reduction in China, India, and other countries that were poor 20 years ago, has been a positive aspect of Liberalization Privatization and Globalization (LPG). But Globalization has also generated significant international opposition over concerns that it has increased inequality and environmental degradation. There is a need to study the impact of globalization on developing countries from the viewpoint of inward foreign direct investment. Attention should also be focused on the role which some developing countries, particularly from parts of Asia and Latin America, are playing as initiators of globalization through their own MNCs.

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 organizations. The new policy regime radically pushed forward in favour of a more open and market oriented economy. This paper explores the contours of the on-going process of globalization Liberalization and privatization. Throughout this paper, there is an underlying focus on the impact of LPG on Indian economy. It also comments on impact of LPG on India.

Keywords: Multi National Companies, liberalization, privatization

INTRODUCTION

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, inernationalisation 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 labour. 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 MNC's 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 Globalization)

Indian economy was in deep crisis in July 1991, when foreign currency reserves had plummeted to almost 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 Easten Europe,South east Asia, latin America and elsewhere, around tha same time. These were the economic compulsions at home and aborad that called for a complete overhauling of our economic policies and compulsions at home and abroad that called for a complete overhauling of our economic policies and programs. Major measures inititated 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 undertaking 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 25kms 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 liberalise the FDI regime, inter alias, include opening up of sectors such as Insurance (upto 26%) development of integrated townships (upto 100%) defence industry (upto 26%) tea plantation (upto100%) 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; opining up B2B e-commerce3; Internet service provides (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 specially 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.
- Severs restrictions on short-term debt allowing external commercial borrowings based on external debt sustainability.
- **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 implications of globalization for a national economy are many. Globalization has intensified interdependence and competition between economies in the world market. These economic reforms have yielded the following significant benefits;

Globalization in India had a favorable impact on the overall growth rate of the economy. This is major improvement give 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 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 8th position in 1991 to 4th place in 2001; when GDP is calculated on a purchasing power parity basis. During 1991-92 the first year of Rao1s reforms program, The Indian economy grew by 0.9% only. However the gross Domestic product (GDP) growth accelerated to 5.3% in 1992-93 and 6.2% 1993-94. A growth rate of above 8% was an achievement by the Indian during the year 2003-2004 India`s GDP growth rate can be seen from the following graph since independence.

Structure of the Economy

Due to globalization not only the GDP has increased but also the direction of growth in the sectors has also been changed. Earlier the maximum part of the GDP in the economy was generated from the primary sector but now the service industry is devotion the maximum part of the GDP. The services sector remains the growth driver of the economy with a contribution of more than 57 per cent of GDP. India is ranked 18th among the world`s leading exporters of services with a share of 1.3 per cent in world exports. The services sector is expected to benefit from the ongoing liberalization of the foreign investment regime into the sector. Software and the ITES-BPO sector recorded an exponential growth in recent years. Growth rate in the GDP from major sectors of the economy can be seen from the following Table.

Table 1. Structure of the Economy (Percentage)

(% Of GDP)	1984-85	2002-3	2003-4	2004-5
Agriculture	35.2	26.5	21.7	20.5
Industry	26.1	22.1	21.6	21.9
Services	38.7	51.4	56.7	57.6

Source: Economic Survey 2000 & 2005

Foreign Direct investment inflows

FDI increased from around US$100 million in 1990/91 to USD 5536 million in 2004-5. The details of the foreign investment inflow can be seen from the following table.

Table 2. Foreign Direct investment inflows (USD $ Million)

INVESTMENT	1990-91	2002-03	2003-04	2004-05 (P)
A. DIRECT INVESTMENT	97	5,035	4,679	5,536
I. Equity		2,764	2,387	3,363
a) Government (SIA/FIPB)		919	928	1,062
b) RBI		739	534	1,259
c) NRI		-	-	-
d) Acquisition of Shares		916	735	930
e) Equity cap. Of unincorporated bodies		190	190	112
II. Reinvested earnings		1,833	1,798	1,816
III. Other Capital #		438	488	357
B. PORTFOLIO INVESTMENT	6	979	11,377	8,909
a) GDRs/ADRs		600	459	613
b) FIIs		377	10,918	8,280
c) Off-shore funds & others	6	2	-	16
C. TOTAL (A+B)	103	6,014	16,050	14,445

Source: Reserve Bank of India Annual Report for 2004-05

Note: P: Provisional

*: Relates to acquisition of shares of Indian companies by non-residents under Section 6 of FEMA 1990.

#: Data pertain to inter-company debt transactions of FDI entities 2. Data on foreign investment presented in this table represent inflows into the country and may not tally with data presented in other tables. They may also differ from data relating to net investment in stock exchanges by FIIs.
Ta represents net inflow of funds by FIIs.

- The current account deficit has hovered at less than I percent of GDP in recent years.
- The strength of the external sector was reflected in a sizeable accumulation of India's foreign exchange reserves comprising foreign currency assets, gold, SDRs and the reserve position with the IMF which touched US$ 141.5 billiion as on March 31, 2005. These were about then US$ 1 billion during the 1990-91 balance of payments crises.
- The composition of debt is also favorable. Short – term debt amounts to 3.5 percent of external debt and concessional debt amounts to 36.5 per cent of total debt.
- The external debt butden looks sustainable according to a range of measures of indebtedness. Both debt service payments as a proportion of current receipts, and the external debt-to-GDP ratio have been falling steadily during the 1990s, and currently stand at around 17 per cent and 20 per cent, respectively.

Foreign Trade (Export- Import)

India's imports in 2004-05 stood at US$ 107 billion recording increases of 35.62 percent compared with US$ 79 billion in the previous fiscal. Export also increased by 24 percent as compared to previous year. It stood at US$ 79 billion in 2004-05 compared with US $ 63 billion in the previous year. Oil imports zoomed by 19 percent with the import bill being US $ 29.08 billion against USD 20.59 billion. In the corresponding period last year. Non-oil imports during 2004-05 are estimated at USD 77.036 billion, which is 33.62 percent higher than previous year's imports of US $ 57.651 billion in 2003-04.

Table 3. Foreign Trade (US $ Million)

Trade	1990-91	2002-03	2003-4	2004-5
Total Exports	18477	52719	63843	79247
Total Imports	27915	61412	73149	107066
Trade Balance	-9438	-8693	-14307	-27819

Source: Reserve Bank of India Annual Report 2004-05

Thus we find that the economic reforms in the Indian economy initiated since July 1991 have led to fiscal consolidation, control of inflation to some extent, increase in foreign exchange reserve and greater foreign investment and technology towards India. This has helped the Indian economy to grow at a faster rate, Presently more than 100 of the 500 fortune companies have a presence in India as compared to 33 in China.

A comparison with other Developing Countries

- 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%.
- India's share of global trade is similar to that of the Philippines and economy 6 times smaller according to IMF estimates.

- Over the past decade FDI flows into India have averaged around 0.5% of GDP against 5% for China and 5.5% for Brazil. FDI inflows to China now exceed US $ 50 billion annually. It is only US $ 4 billion in the case of India.

Indian Economy: Future Challenges

- 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.
- Checking he growth of population; India is the second highest populated country in the world after China. However in terms of density India exceeds China as India's land area is almost half of Ch9ina's total land. Due to a high population growth, GNI per capita remains very poor. It was only $ 2880 in 2003 (World Bank figures).
- 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 an 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. It should develop infrastructure with what Finance Minister P Chidambaram of India called "ruthless efficiency" and reduce bureaucracy by streamlining government procedures to make them more transparent and effective.
- 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 though the application of information and communications technology (ICT) in all aspects of Indian life although, the government is committed to furthering economic reforms an 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

The lesion of recent experience is that a country must carefully choose a combination of policies that best enables it to take the opportunity – while avoiding the pitfalls. For over a century the United States has been the largest economy in the world but major developments have taken place in the world economy since them, leading to the shift of focus from the US and the rich countries of Europe to the two Asian giants- India and China. Economics experts and various studies conducted across the globe envisage India and China to rule the world in the 21st Century. India, which is now the fourth largest economy in terms of purchasing power parity, may overtake Japan and becomes third major economic power within 10 years.

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