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EFFECTS OF THE GLOBALIZATION ON INDIAN ECONOMY

MOHD. IRFAN
RESEARCH FELLOW
DEPARTMENT OF BUSINESS ADMINISTRATION
DDU GORAKHPUR UNIVERSITY
GORAKHPUR

DR. ANIL KUMAR YADAV
ASSOCIATE PROFESSOR
DEPARTMENT OF COMMERCE
DDU GORAKHPUR UNIVERSITY
GORAKHPUR

ABSTRACT

The term 'globalisation' was first used by social scientists to refer to the evolution of separate human societies into a single global society. Examples of this were ancient empires trading with each other and also the worldwide alliances, during World War I and World War II. By the 1980's, the term was commonly used for specifically economic globalisation. Now, it refers to worldwide trade linking economies together in such a way that they are all interdependent. Simply, it can be said that "Globalisation is the free movement of goods, services and people across the world in a seamless and integrated manner." 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 MNCs, population migrations and increased mobility of persons, goods, capital, data and ideas, but also infections, diseases and pollution. In present scenario, the term globalisation refers to the integration of world economies, through uninhibited trade and financial flows, and also through mutual exchange of technology and knowledge, etc. It contains free inter-country movement of labour as well. The new economic reform, popularly known as, Liberalization, Privatization and Globalization (LPG model) have made the Indian economy as fastest growing economy and globally competitive. In Indian context, 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. As a development paradigm globalisation is now widely accepted in India. It has changed many fiscal, monetary, trade and industrial practices in India. Their changes reflect the Indian efforts to globalise its economy to achieve higher growth rate.

KEYWORDS

liberalisation, privatisation, human societies, globalisation.

INTRODUCTION

The big story of the last decade for India has been its arrival on the global scene. The Indian economy had broken free of the low-growth trap from the early 1980s. By the mid-1990s, Following the economic reforms of 1991-3, India began to appear as a player of some significance in the global economy. Then, following the East Asian crisis of the late 1990s, and from the first years of the first decade of the 21st century there was no looking back. India's exports began to climb, its foreign exchange reserves, which for decades had hovered around 5 billion dollars, rose exponentially after the economic reforms and in little more than a decade had risen to 300 billion dollars. Indian corporations that rarely ventured out of India were suddenly investing all over the world and even in some industrialized countries. When, in 2009, the Group of 20 (G-20) was raised to the level of a forum for leaders, India was a significant member of this global policy group.

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.

THE IMPORTANT REFORM MEASURES

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 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).
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 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.

ECONOMICAL BENEFITS OF GLOBALIZATION
The statistics given below will give a clear picture of how far India is succeeded to achieve the Economical benefits of the globalization.

SHARE IN WORLD GDP

Current Prices Basis

	Advanced Economies	US	EU	Euro zone	UK	Germany	Japan	B	R	I	C	S
1980	76.2	26.0	34.1	Na	5.1	7.7	10.0	1.5	Na	1.7	1.9	0.8
1990	79.7	26.1	31.7	Na	4.6	7.0	13.8	2.3	Na	1.5	1.8	0.5
2000	79.7	30.9	26.4	19.4	4.6	5.9	14.5	2.0	0.8	1.5	3.7	0.4
2005	76.1	27.7	30.2	22.3	5.0	6.1	10.0	2.0	1.7	1.8	5.0	0.5
2010	65.8	23.1	25.8	19.3	3,6	5.2	8.7	3.3	2.4	2.6	9.3	0.6

PPP Basis

	Advanced Economies	US	EU	Euro zone	UK	Germany	Japan	B	R	I	C	S
1980	69.0	24.6	31.4	Na	4.3	6.7	8.6	3.9	Na	2.5	2.2	1.0
1990	69.2	24.7	28.7	Na	4.1	6.2	9.9	3.3	Na	3.2	3.9	0.9
2000	62.8	23.5	25.0	18.3	3.6	5.1	7.6	2.9	2.7	3.7	7.1	0.7
2005	58.6	22.3	23.0	16.5	3.4	4.4	6.8	2.8	3.0	4.3	9.5	0.7
2010	52.1	19.5	20.4	14.6	2.9	4.0	5.8	2.9	3.0	5.5	13.6	0.7

Source: IMF, WEO database. (Note: PPP is purchasing power parity)

India's Share in World service exports

1980	1990	2000	2010
0.7	0.5	1.1	3.3

Source: World Bank database.

INDIA'S EXPORTS OF GOODS & SERVICES (%GDP)

1980	1990	2000	2005	2010
6.2	7.1	13.2	19.3	21.5

Source : World Bank Database.

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).
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 cores (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 lo 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.

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?

CONCLUSION

No doubt, it is an opportunity if we succeeded to cope up with the issues discussed in dark side of globalization then perhaps the impact of globalization would be positive.

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