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GLOBALIZATION AND ITS IMPACT ON INDIAN ECONOMY

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Abstract

Globalization means different things to different people. It can be defined simply as an expansion of economic activities across political boundaries of nation states. More importantly it refers to a process of deepening economic integration, increasing economic openness and growing economic interdependence between countries in the world economy. It is associated not only with a phenomenal spread and volume of cross-border economic transactions but also with an organization of economic activities which straddle national boundaries of the world. Globalization in India is generally taken as integrating the economy of the country with the rest of the world. This in turn implies that opening up the economy to foreign direct investment by providing facilities to foreign companies to invest in different fields of economic activities in India; removing constraints and obstacles to the entry of MNCs; allowing Indian companies to enter into foreign collaborations in India and also encouraging them to set up joint ventures abroad; carrying out massive import liberalization programmes by switching over from quantitative restrictions to tariffs in the first place, and then bringing down the level of import duties considerably; and instead of plethora of export incentives opting for exchange rate adjustment for promoting exports. Whether seeds of globalization sown in pre-reform period as many concessions were granted to foreign capital, MNCs were allowed to enter a number of crucial sectors to which their entry was previously restricted and banned. The study is purely based on secondary data. It will have a discussion on negative and positive impacts of globalization on Indian economy.

Keywords: Liberalization, MNCs, Globalization, Economic Integration.

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1. Introduction

The real thrust to the globalization was provided by the economic reforms of 1991 initiated by Government of India. The period 1980-81 was marked by severe balance of payment difficulties. The second oil shock pushed up the import bill substantially while exports lagged considerably behind. Thus trade deficit rose to astronomical heights. During seventh plan, private remittances also showed a tendency of flattening out. As a result, net invisibles could finance only 24 percent of trade deficit in the seventh plan. The problems were compounded by gulf war in 1990-91. The trade deficit in this year soared to Rs. 16,934 crore and invisibles also recorded negative earnings. Therefore, current account deficit was as large as Rs 17,369 crore in 1990-91. The problem got further accentuated by India's increased reliance on high cost external commercials borrowings and non-resident deposits all through the 1980s as the flow of concessional assistance was considerably less than the requirements. Capital was flowing out of the country and country was close to defaulting 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.

Indian economy had experienced major policy changes in the early 1990s. The new economic reform popularly known as Liberalization, Privatization, and Globalization (LPG), 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 not only had tremendous impact on the overall economic development but also on the mindset of Indian people who could get rid from traditional, stubborn thinking, superstition, and illiteracy.

There were the economic compulsions at home and abroad that called for a complete overhauling of our economic policies and programs. Major measures initiated as part of liberalization, privatization and globalization in early nineties included the following:

1) Devaluation: The first step towards globalization was the devaluation of the currency by 18-19 percent against major currencies in the international foreign exchange market. These measures were taken to resolve the balance of payment crisis.
2) Disinvestment: In order to make the process of globalization smooth, under the privatization scheme, most of the public sector undertakings were sold to private sector to give opportunity to private players in the economy.
3) Dismantling the Industrial licensing regime at present, only three industries are under compulsory licensing regime, mainly on the accounting of environmental safety and strategic considerations. A significantly amended 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 kilometers of the periphery of cities having a population of more than one million.
4) Allowing foreign direct investment 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 investment.
5) Non-resident Indian scheme: the general policies and facilities for FDI as available to foreign investors and companies are fully available to NRIs as well. In addition government has extended some concessions especially for NRIs and overseas corporate bodies having more than 60 percent stake by non- Indian residents.

6) Abolition of MRTP Act: Monopoly and Restrictive Trade Practices act was abolished as per the process of liberalization. It was compulsory for investor to get approval from government to have further capacity expansion under MRTP Act.

Globalization has positive as well as negative effects. One side if globalization has accelerated the growth rate of GDP on the other side it has generates high inequalities among Indian people. There are few people who are exploiting the resources of economy and most of the proportion of national income is possessed by them. This type of unequal distribution of income is generating poverty, unemployment etc.

2. Globalization as a Boon

1) The growth rate of GDP of India has been on the increase from 5.6 percent during1980-90 to 7 percent in the period of 1993-2001. In the last fifteen years except two or three years, rate of GDP growth was more than 7 percent. It was 9.2 percent in 2006-07. At present in 2016 GDP is growing at 7.4 percent shown by union budget 2016-17.
2) The foreign exchange reserves were $39 billion (2000-01), $107 billion (2003-04), $145 billion (2005-06), and $180 billion in 2007. According to reserve bank of India, India's foreign exchange reserves are $351.83 billion as on 19 Feb, 2016.
3) The cumulative FDI inflows from 1991 to 2006 were Rs. 81566 crore ($43.29 billion). The sectors attracting highest FDI inflows are electrical equipment including computer software (18 percent), Service Sector (13 percent), Telecommunications (10 percent), and Transportation industry (9 percent) etc.
4) In 2010 India's share was 55 percent in Global Outsourcing market.
5) India's rank was fourth in market capitalization in 2005, it was preceded by USA, Germany and China. But at present its rank is ninth, it means it is now preceded by eight countries and India's position has worsened but India was able to join trillion dollar market by going through all ups and downs. India's market capital is $1.6 trillion and it is 2.5 percent of world's capital market.
6) As per the Forbes list 2015, India has 100 billionaires. There were only 40 billionaires in India as per forbes 2007 list. The assets of these 100 billionaires are more than cumulative investment in the 91 public sector undertakings by the central government of India.

3. Globalization as a Curse

1) India is home to the largest number of child labourers in the world. The census found an increase in the child labourers from 11.28 million in 1991 to 12.59 million in 2001. M.V. foundation in Andhra Pradesh found nearly 40,0000 lakh children mostly girls between 7 and 14 years of age, toiling for 14-16 hours a day in cottonseed production across the country of which 90 percent are employed in Andhra Pradesh. Poverty and lack of security are main causes of child labour. Post reform period has witnessed drastic increase in child labour because due to LPG policy the role of public sector was reduced. Therefore corporates are working for profit motive only.
2) Agriculture sector is the backbone of the Indian economy. Above 50 percent people are working in agriculture sector. This sector has been neglected by government in post

reform period and share of agriculture has decelerated continuously. At the time of independence, agriculture was contributing nearly half of the GDP but now its share is only 14 percent in total GDP of country. Reasons for backwardness of agriculture are lack of public investment, indebtedness of farmers and presence of intermediaries between sellers (farmers) and buyers.

3) Job and social insecurity: globalization has generated problems like job and social insecurity. Public sector provides jobs alongwith social as well as job security and other benefits also. But in the modern era a person can get a job but neither he would get a neither secure job nor social security. Therefore, increasing insecurity in society is perpetuating other social evils like dowry system, crimes, unemployment etc.
4) Poverty and unemployment: as per the Forbes list 2015, India's number of billionaires has crossed 100 and the wealth they possess is more than the investment in public sector undertakings by central government. This has led to wide range of inequalities of wealth among Indian people. Some people are such who dying from starvation and some are dying due to consumption of excessive food in our country. Consequently, Malnutrition, child labour, and crimes are on the rise. Still a large proportion of people in India living below poverty line even India has been unable to achieve millennium development goals in case of many indicators. Whether India's present generation is education but Indian youth is suffering from unemployment and they have to survive on subsistence wages. Seasonal, underemployment and structural unemployment are found in India.

4. A Comparison with other Developing Countries

Consider global trade- India's share of world merchandise exports increased from .05 percent to .07 percent over the past twenty years. Over the same period China's share has tripled to almost 4 percent.

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

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

Now 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 Indian economy is more imperative and having witnessed the positive role of the foreign direct investment has played the rapid economic growth of the most of The South Asean 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 foreign direct investment. Present NDA government has tried to maintain status quo very well by allowing maximum FDI in different sectors as much as it may be possible. NDA's foreign policy has been commended all over the world but consequences of initiative taken to increase FDI inflows in India are still on the waiting list.

5. Policy Implications/Suggestions

1) In the case of agriculture, if the FDI is allowed 100 percent in multi-brand retail sector, then farmers can get remunerative prices for their crop. Farmers are getting meager prices for their produce due to many types of intermediaries between sellers (farmers) and buyers.
2) UNCTAD had underlined the large amount of losses to the exchequer of developing countries ($100 billion a year) due to the routing of FDI through tax havens therefore early implementation of GAAR (General anti avoidance rule) is required which has been delayed by present government. Policy makers need to take cognizance of the fact that it is domestic investment which has provided an overwhelmingly large share of india’s capital formation should not be neglected because of foreign phobia.
3) Communal disharmony has been the issue of debate for present government. Whether India’s ease of doing business rank has improved to 34 but due to violence, riots and strifes at domestic level India has lost its international reputation. Recently agitation by jats in Haryana for reservation was so horrible that shops, malls were set afire. After the withdrawal of protests when owners were advised to start their shops and malls along with financial help they refused to do so. Reason is that they are feeling insecure in such environment. Therefore, communal harmony is must to attract foreign as well as domestic investors.
4) To attract investors from different countries infrastructure, Social as well as physical should be improved. Social infrastructure includes education and health on the other hand physical infrastructure includes transportation, energy, banking services etc. A good and efficient infrastructure can play a vital role in the augmentation of globalization process.
5) The government has already set the ball rolling. It has relaxed FDI norms to encourage both domestic and foreign companies to manufacture in India sell their products abroad. Indian population has poor skill or they don’t have skills at all. The Indian employers have been struggling with acute shortage of skilled manpower despite India having the largest pool of young population in the world. Reason: Lack of required expertise for specific jobs. As per the labour bureau report 2014, the current size of India’s formally skilled workforce is only 2 percent. This apart there is also challenge of employability of large sections of the conventionally educated youth. The Indian education system has been churning out brilliant minds but lacking in the skills sets required for specific jobs. Therefore, there is need for appropriate and adequate skill development and training which can convert this force into the largest source of technically skilled manpower. The skill India mission launched by government is pertinent initiative to provide solution to the problem. Only a job ready and skilled workforce can reap the benefits of foreign direct investment.

6. Concluding Remarks

Globalization has its own negative as well as positive impacts in modern era. Our policy implications have been against common man. It is the government which can reap the benefits from globalization if it prepares and implement pro-people policies to attract foreign direct investment. There is example of many developed as well as developing countries such as south ASEAN countries like china, who have yielded a lot from globalization by trading all over the world. Our policies are influenced by big corporates and elites it is proved by the increasing number of billionaires in India as per Forbes list. Even our elections are financed by corporates so it is obviously that government policies are too influenced by corporates to fulfill their own personal interests. It is the policies of china and Russia who have utilized the foreign direct investment to elevate masses above the poverty line. Such policies and attitude should be adopted by India towards globalization. Only pro- poor policies and workforce ready for jobs will be beneficial for government who believes the theory trickle-down effect. Hitherto that trickle-down effect has not been seen by Indian people. Indians are still waiting for good days.

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