

Globalization and its effect on India

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Paper No. 193

Received: 11 June, 2014

Accepted: 27 July, 2014

Abstract

Globalization has many meanings depending on the context and on the person who is talking about. 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. Globalization has played a major role in export- led growth, leading to the enlargement of the job market in India. 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. 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 globalization on India. Throughout this paper, there is an underlying focus on the impact of globalization on India's foreign trade and Indian economy.

Keywords: India, Globalization, liberalization, privatization, economy, foreign trade.

SECTION 1

Review of literature

Globalization is the subject of attraction for a long time. The wave of globalization appeared on India's shores only in 1991, much after China's and some other Southeast Asian countries. The various research centers, trade committees, economist and media are giving importance to globalization and its impact on Indian economy continuously. We include some significant studies have been taken up for the purpose of literature review that are most relevant for our analysis.

Singh (2012) in his paper "Globalization and Its Impact on Indian Economy" examines the reform history in Indian economy starting from the pre-British era to present stage of Liberalization, Privatization and

Globalization. In his paper he found that India needs to launch a ‘second generation’ of economic reforms, with a more human face, the reforms must be based on the long-term vision of transforming India into a global economic power in the next twenty to twenty-five years. **Sharma** (2009) in his book “China and India in the Age of globalization” explored how the interplay of socio, historical, political and economic forces has transformed, India and China, once poor agrarian societies into economic powerhouse. In this book he examined the challenges that both countries face and what each must do to strike the balance between reaping opportunities and mitigating risks.

Pillania (2008) in his study “An Exploratory study of Indian Foreign Trade” studies various aspects of Indian foreign trade since 1949. He found that Indian foreign trade has progressed a lot over the last sixty years since independence and India lost its market share to other countries in 1950s and 1960s. The situation improved in 1970s and exports have finally picked up in post liberalization era in general and after 2002 in particular. **Singh** (2007) in his study “Globalisation, Industrial Revolutions in India and China and Labour Markets in Advanced Countries: Implications for National and International Economic Policy” examines the impact on labour markets in advanced countries of the integration of the fast - growing countries, China and India. After his study he suggests that globalisation has a small overall effect on output and employment in advanced countries. The paper concludes that current globalisation cannot meet these twin objectives and that coordination and cooperation between nation states under alternative globalisation are much the better way, if not the only way of realising these objectives. **Goyal** (2006) in his paper “Impact of Globalization on developing Countries (with special reference to India)” 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.

Various studies have been made to analyse different aspects of Indian foreign trade, but little has been done to study the impact of globalization on Indian foreign trade. Hence, present study proposes to study the effect of globalization, on India along with other untouched aspects of the Indian foreign trade.

Research Methodology

The present study will be based on secondary data. Data and information will be obtained from published papers, books, periodical, journals, internet websites and official sources like RBI Annual report, Monthly statistics of Foreign Trade of India- DGCI &S, Govt of India, Center for Monitoring Indian Economy (CMIE) and National statistics of China, China’s statistical year book. The base period of proposed study will be limited to ten years before globalization (1981-1990), after globalization (1991-2000, 2001-2010). Important and relevant statistical tools will be used to analyze the data.

Introduction

Globalisation is a very common theme of discussion and analysis these days. The process of globalisation is popularly described as a gradual removal of barriers to trade and investment between nations. (Mehta and Purohit 2001). Globalisation broadly means fully-free economic operations across the borders of countries, without any impediments by governments of countries. And we can also say that the term of globalization means International Integration. Globalisation has been dominating the world since the nineties of the last century. Till 90s the process of globalization of the Indian economy was constrained by

the barriers of trade and investment. Liberalisation of trades, investment and financial flows initiated in the nineties has progressively lowered the barriers to competition and hastened the pace of globalization. The wave of globalization hit India at the end of the last century and still the country is flowing with the current of global changes. 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. This paper attempts to throw light on the impact of globalization on India's international trade and economy.

The present paper is organized as follows: Section 1 makes the Review of literature, Research methodology and Introduction, Section 2 summarizes the Major steps towards globalization. Section 3 presents the Discussion and findings. Section 4 summarizes Results and makes a conclusion.

SECTION 2

Major Steps towards 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:

1. Devaluation: To solve the balance of payment problem Indian currency were devaluated by 18 to 19%.
2. Disinvestment: To make the LPG model smooth money of the public sectors were sold to the private sector.
3. Allowing (FDI): FDI was allowed in a wide range sectors such as Insurance (26%) etc.
4. NRI Scheme: The facilities which were available to foreign investors were also given to NRI's.
5. Throwing open industries reserved for the public sector to private participation. Now there are only three industries reserved for the public sector.
6. Abolition of the (MRTP) Act, which necessitated prior approval for capacity expansion.
7. 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.

The series of reforms undertaken with respect to industrial sector, trade as well as financial sector aimed at making the economy more efficient.

SECTION 3

Discussion and Finding

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;

Annual GDP growth rate 1980 – 2012

Globalization in India had a favorable impact on the overall growth rate of the economy. The pick-up in GDP growth has helped improve India’s global position. India has grown at an averagerate of close to 9% annually. Figure 1 shows the Annual GDP growth rate of India (1980-2012)

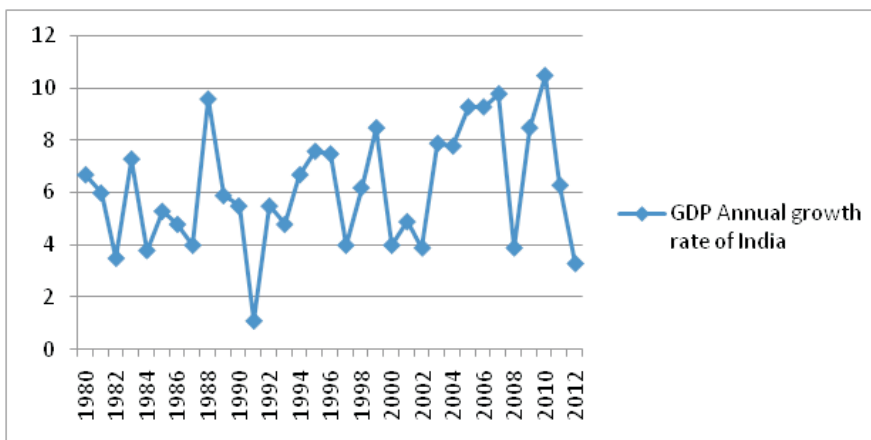


Figure 1.

Source: WDI

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 devoting the maximum part of the GDP. The services sector remains the growth driver of the economy. Figure 3 shows Sectoral composition of GDP in China 1980 to 2012.

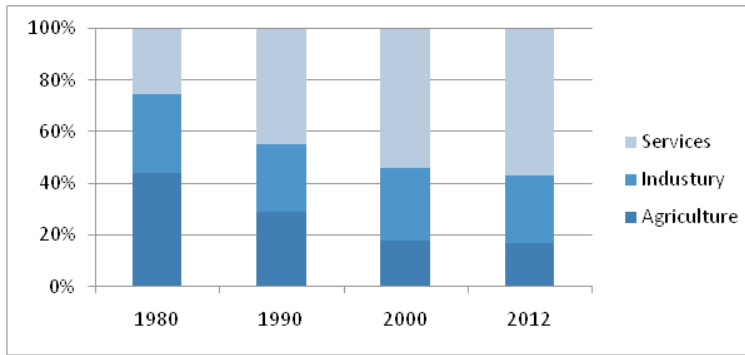


Figure 2. Sectoral Composition of GDP of India (% of GDP)

Source: WDI

It is clear that figures during the last three decades the weight of the industrial sector on GDP has persistently been much higher in India. India is more specialized in services and agriculture continues to be more important.

Foreign Direct investment inflows:

India has vast potential to attract Foreign Direct Investment (FDI) to serve the local market and to become a more important part of the global integration. Table: 1 represent the FDI inflows in India during 1978 to 2012.

Table 1

Total FDI inflows 1978-2010 (current US \$ billion)	Annual average FDI inflows (current US \$ billion)				
	1978-1990	1991-2010	2008	2009	2010
191.3	0.1	9.5	41.6	34.6	21.0

Source: Wignaraja (2011)

Table 1 shows, Annual average FDI inflows amounted to \$ 0.1 billion a year during 1978-1990 in India. During 1991 to 2010 attracted 9.5 billion per year. As a result India became the world’s largest FDI recipient.

Growth of India’s Foreign Trade

A comprehensive economic reform was undertaken in 1991 in the wake of sever balance of payments crisis. Globalization has major impact on India’s foreign trade. The export, imports and balance of payments picture is given in Table 2.

Table 2. Export, Import and Balance Payments from 1990-91 to 2009-10

Period	Exports	Imports	Trade Balance
1991-92	32,553	43,198	-10,645
2001-02	203,571	230,873	-27,302
2005-06	456,418	660,409	-203,991
2009-10	845,534	1,363,736	-518,202

Source: Economic Survey, Ministry of Finance, Government of India (2010-201)

This table shows that the export and import has continuously increased but as compared to the export, import has increased at a higher rate. As it can be seen, the trade balance is negative throughout the year.

Stronger integration in the global economy

India’s trade expansion started in 1991 when the country initiated reforms and opening up policies. For the past decades, its position as a stronger player in international trade has been remarkable. Table 3 shows India’s percentage share of world export and import:

Table 3.

Commodity	1980		1990		2000		2012	
	Export	Import	Export	Import	Export	Import	Export	Import
II Agricultural Products	1.0	0.5	0.8	0.4	1.1	0.7	2.6	1.5
IV Manufactures	0.5	0.5	0.5	0.5	0.7	0.5	1.6	1.6
4.1. Iron and Steel	0.1	1.0	0.2	1.0	0.9	0.5	2.2	2.1
4.2 Chemicals	0.3	-	0.4	1.0	0.7	0.8	1.8	2.2
4.3 Office machines and telecom equip.		0.1		0.2		0.3		1.3
4.4 Textiles	2.4	0.1	2.1	0.2	3.6	0.4	5.3	1.1
4.5 Clothing	2	0.1	2	0.0	3.0	0.6	3.3	1.1
V Commercial Services								
5.1 Transports							1.9	5.2
5.2 Travel							1.6	
5.3 Other Commercial Services							4.3	2.6

Source: WTO Trade Statistics 2013

Several interesting facts emerge from Table 3. After 1990, the share of India in world’s export and import has continuously increased but till now India is not yet a major exporter and importer to the world.

SECTION 4**Conclusion**

Main finding of this paper is that India's economic growth has received a strong impetus in post 1991 era. Flowing with globalization, India is shining in nearly every perspective. GDP growth has helped to improve India's global position. The data shows that globalization has shown positive results in economic term. Globalization has also effected India's international trade positively but even than India's share in international trade is very low. India is getting a global recognition and slowly moving towards to become a major economic and political strength., India needs to launch a 'second generation' of economic reforms and the reforms must be based on the long-term vision of transforming India into a global economic power in the next twenty to twenty-five years.

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