

A Study on Globalization & It's Impact on Indian Economy

Shrimati Anupama Shukla

Research Scholar: Vikram University Ujjain Madhya Pradesh.

Dr. Imtiyaz Ahmad Lone

Research Scholar: Vikram University Ujjain Madhya Pradesh.

Dr. Naina Dubay

Prof. of S.O.S, Vikram University Ujjain Madhya Pradesh.

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 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: *Liberalization, Privatization, Globalization, Economic India, Impact.*

Introduction:

We live in a world where, science, technology and development play an important roles in changing human destiny. A rapid increase in international interdependence has initiated the process of globalization in the world. Globalization is process of integration of economy society and culture with the use of technology and new knowledge. Globalization is not a new term.

Globalization is a term that has become very popular and used in many different contexts (Powell, 2015). Norris (2012) links the definition of globalization to geographical borders. The author distinguishes between national, international offshore and global. On the other hand however, Amavilah et al (2014) defines globalization as the increasing integration between the markets for goods, services and capital. Redding's (2000) definition also links globalization to the breakdown of physical boundaries. Those in support of the globalization wave see it as an opportunity for economic growth while opponents perceive it as a threat to economic prosperity, political sovereignty, and cultural integrity (Amavilah et al (2014). In the case of developing countries, the primary concern is the threat to political sovereignty and losing control of their economies (Glatzer, 2012).

Globalization defines a mechanism for integrating economic growth, communities and cultures into a global network of communications, transport and trade. The concept often refers explicitly to economic *globalization*: financial integration, foreign direct investment, capital transfers, relocation, and technical growth in the economies of the world. *Globalization* as a geographical *globalization* of international affairs, he said, "*Globalization* is defined as an intensification of global social relations that connect remote locations in such a way that local practices are influenced by events taking place a few miles away and vice versa." After foreign currency reserves fell to \$1 billion in 1991, India's economy faced significant contraction. Globalization has influenced a number of industries, including livestock, fruit, finance, security, etc. Accompanied by the *LPG*, i.e. Man Mohan Singh, then Minister of Finance, advocated *liberalization, privatization and globalization*, with India growing across sectors.

The strategic objective of Indian economy policy had experienced major changes during early 1990s. The economic reform, commonly known as, *Liberalisation, Privatisation and Globalisation (LPG model)* intended to make the Indian economy as fast moving economy and globally competitive. The main aim of changes in policy was for creation of an independent

economy and the reduction of the high levels of poverty that existed, all within a democratic political framework. The different policies improvements commenced with respect to industrial sector, trade in addition to the carious financial sectors aimed at reforming the Indian economy more competent. With the beginning of reforms to liberalise in July of 1991, a new era has emerged for India and its economy. The discussion which made that capital being scarce in India, and it was vital to standardize the flow of the existing capital into socially projected channels. This was achieved by an extravagant system of industrial licensing, state monopoly and control over key industries. The foreign exchange had to be saved by restraining imports, as it was thought that India was not accomplished of earning foreign exchange through exports. Consequently the policy highlighted independence and neglected foreign trade as a means of economic growth.

Review of literature:

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.

India’s Economy after the Dawn of Globalisation:

The emergence of globalisation has a close linkage with progress in Indian economy. In a follow up to the Cold War end, India took the bold steps of implementing economic reforms that finally brings an end to license raj and opening up of private sectors. The reforms process introduced were reducing tariff and non-tariff barriers, relaxation of FDI rules, exchange rate and banking reforms. The decision to open up its economy and integrate it to the international economy would always remain the sound basis for the success behind Indian economy.

With this, trade and investment relations with other countries and foreign investment inflows started improving in a way that had never experienced before. FDI inflow to India in 1990 was just US\$ 100 million, but within six years, it jumped to US\$ 2.4 billion. The ratio of FDI inflows to GDP has also improved in a significant way. However, the 1997 Asian financial crisis and the Indian decision to carry out nuclear tests in May 1998 brought a temporary setback to the prospering Indian economy. The average GDP growth rate in the first decade after the liberalization of Indian economy hovers around 5.6 per cent.

By the turn of the twenty-first century, there is no way of backtracking India’s economic growth that had started improving. The Indian economic growth rate of 8.5 per cent each in 2004 and 2005 was quite impressive, followed by a much better growth rate of 9.4 per cent in 2006. Because of which, India has emerged as the fifth largest global economy when measured by the size of its GDP in market rate and the fifth-largest global economy in terms of purchasing power parity.⁸ However, today, Indian economy is the fourth largest in the world behind the U.S., China and Japan. India is most likely to replace Japan in the coming few years. This is

justified by the fact that the size of India's economy was 73 per cent that of Japan. However, in 2006, the figure has risen to 99 per cent. India's economic performance would have been much better had there been continuous step-by-step reforms. Continuous trade and investment reforms would hold the key India's economic progress in future.

The Important Reform Processes:

The Important Reform Processes (Step Towards liberalisation privatisation and Globalisation) was in deep crisis in July 1991, when foreign currency reserves had tumbled to almost \$1 billion; Inflation had boomed 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 pressures at home and abroad that called for a complete renovating 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 of Indian currency by 18-19 percent against major currencies in the international foreign exchange market.
- ❖ Disinvestment to make the process of globalization smooth, privatization and liberalization policies are moving along as well.
- ❖ Dismantling of the industrial Licensing Regime mainly on accounting of environmental safety and strategic considerations.
- ❖ Allowing foreign Direct Investment (FDI) across a wide spectrum of industries and encouraging non-debt flows.
- ❖ 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.
- ❖ Throwing open industries reserved for the public sector to private participation.
- ❖ 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-Wide-ranging financial sector reforms in the banking, capital markets, and insurance sectors, including the deregulation of interest rates.

Effects of Globalization on Indian Economy:

Beside the oil crisis and various other factors had created financial emergency in India around 1990 when foreign currency reserves were reduced to only 3 weeks outflow. Major factors for such a situation where stagnant economy, mounting fiscal deficits, current account deficits in international trade and high rate of inflation during the preceding many years.

Such a situation demanded some drastic steps including major structural changes in Indian Economic policies. At this point, Indian Government had no option but to accept the precondition of joining stream of Globalization so as to be able to avail loan/grant facility from World Bank. It agreed to reduce quantitative restrictions imposed through licensing system. It also agreed to reduce custom duties in phases to levels acceptable to WTO. Custom tariffs were reduced in phases over the decade 1991-2001 from weighted average of about 70% to about 30%. Realizing that Globalization itself, may not help the ailing Indian economy, the then Government of India decided to go for privatization of its economy and to adopt liberalized economic policies. Some steps towards these structural changes were:-

- Abolition of Industrial licensing Policy.
- Free access to foreign technology.
- Abolition of Government control over capital issues and creation of SEBI to encourage equity culture in India.
- Reduction in industries reserved for public sector.
- Decision to go for partial disinvestment in public sector enterprises.

Objectives of the Study:

1. To examine the factors in which that influence India's economy after globalisation.
2. To study the current status of Indian economy.
3. To analyse the evolution of India's economic before and after globalisation.

Hypothesis of the Study:

Null Hypothesis:

There is no significant impact on growth of India's economy after globalisation.

Alternative Hypothesis:

There is significant impact on growth of India's economy after globalisation.

Methodology:

Doctrinal type of method is used to do this research. Doctrinal research is a theoretical study where mostly secondary source of data are used. In particular Descriptive methods is used for this research paper. A comparative study is included for better understanding of the problem.

Consequences of Globalization:

Global development has consequences, too. Globalization has increased interdependence as well as global competition. It illustrates the interdependence of goods service and capital transport. This will not follow global economic trends along all regional s strategies and circumstances. They are affected by international, global and economic causes. It is therefore clear that, when formulating such a revised domestic strategy, a globalizing economy could not disregard future strategies and patterns in the rest of the world. This limited policy options, indicating a lack of systemic authority in national decision making. We are now investigating the impact of the Indian economy on globalization.

Globalization Effect on Agriculture Sector:

In rural Indian communities, agriculture is a major factor that revolves from around socio economic rights and poverty, and if the paradigm changes, it may affect the existing social equity system. India started to liberalize trade in 1991. India approached the IMF as a creditor faced with the global economic crisis and approved the so called 'systems reform' loan, a debtor with a few significant policy changes. Reforms focus gradually on the elimination of regulatory (liberalization), the privatization of agencies in the public sector (privatization) and customer opportunities and trade barriers (globalization) sanitary globalization:

- ✓ Enhanced performance of the job;
- ✓ Remove violence;
- ✓ Secure preparedness,
- ✓ Technology and infrastructure enhancing;
- ✓ Improve domestic growth significantly.

Globalization Impact on Industrial Sector:

Once the government opened up foreign investment markets, the effect of globalization on Indian demand started in the early 1990s. Indian development has globalized many industries, including steel, medicine, power, milk, clothing, cement, food and BPO. Globalization means widening trade disparities between nations, merging national exchange rates, goods and services trade and regional business investment. In recent years globalisation, due to rapid technological developments particularly in communications and transportation, has increased worldwide.

In 1991, the Indian Government revised its economic policy to allow domestic foreign direct investment. Several foreign enterprises especially in the pharmaceutical, BPO, oil, textile and chemical industries, have established industries in India that have contributed to the development of jobs for many Indians through globalization in the Indian economy. This has led to rising unemployment and poverty. Foreign companies use state of the art technologies to help the Indian industry to grow technology and profit from the effect of globalization on Indian business. As technology has evolved, the negative impact of globalization on Indian manufacturing had also declined and many citizens have been driven away from their jobs. In the chemical and cement industries in particular.

Globalization Impact on Financial Sector:

Reforms in the financial sector are essential to the liberalization agenda of India. Recent liberalization measures had also opened the door to foreign companies for our domestic enterprises. Life was innovative. The traditional approach resulted in financial intermediaries facing potential collateral threats. As a result, some developments in global financial markets have affected the domestic economy. Controversies have volatitized and suspicious many financial institutions and authorities in the financial services business. This sector is currently facing growing challenges.

In this changed context, India has a very positive and competitive role to play in the coming years by offering a variety of creative solutions for both the diverse needs of millions of potential global investors. Changes in the financial market are vital to the economic liberalization agenda of India. Financial services (including finance insurance, immovable and corporate services) declined to 8.7% in 2004 2005 and to 10.9% in 2005 2006. The average increase in 2006 07 was 11.1 percent. Finance is shifting financial globalization. There are

considerable changes in the effects of political dynamics, creative thinking and global capital markets.

Impact on Export and Import:

India produced 42,572 and 48,362 million in 2001 02. Some Indian companies are internationally renowned. Agricultural exports represent 14 18% of the annual global exports of the country. Sea goods provided by themselves in 2000 01 more than 6 million dollars in agricultural products out of a population of 23 per cent. Recently, major producers have been the largest contributor to overall food products of production, adding approximately a fifth to total food products. These common products include cereal (mainly basmati rice and non-basmati), oil seeds, coffee or tea, 5 10 of total country exports.

Advantages of Globalization:

- Competition is growing as more products become available to consumers.
- Increased demand from developed countries.
- Larger and wider exchange of information has helped bridge geographical disparities and improve international exchange.
- Developments in advanced nations have reversed brain damage.

Demerits of Globalization (Challenges):

- In emerging countries, job destruction has led to a reduction in workers in industrialized countries.
- Most communicable diseases.
- Big multinationals are in charge of the globe.
- It would lead to less tacit domination by developing nations.
- Rural landless families increased from 35 per cent in 1987 to 45 per cent in 1999, 55 per cent in 2005. Farmers are starving.

Conclusion:

India has profited substantially from the LPG framework as its GDP in 2007 2008 soared to 9.7%. The fourth place is Indian market capitalization. Agricultural production has not improved despite globalization. Agriculture contributes 17% of GDP. Also homes and

factories without land commit suicide. And, in spite of the positive effects of globalization, India will also soon solve these obstacles and mark its path towards growth. The message from recent session is that a nation should choose a policy mix intentionally to help improve efficiency and avoid crashes. The United States was less than 100 years and has been the biggest country, with massive shifts from the U.S. to two Asian nations, India and China, since then. Economic analysts and global studies expect that the 21st century will be driven by India and China. In ten years India, now the fourth largest acquisition power sector, will overtake Japan and be the third largest economy. Ultimately, the transition to globalization leads to our daily life. In the growth of India, globalization has a positive and negative effects.

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