IMPACT OF GLOBALIZATION OF INDIAN ECONOMY

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Abstract : One of the most important political event of the late & twentieth century has been a world shift towards more liberal policies and free trade with reduction of protectionism and it has happened in most regions of the world with remarkably few exceptions. The New Economic Reforms Liberalization, Privatization and Globalization have revaluationsed the world economy. 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 view point of inward foreign direct investment.

Indian 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 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.

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IndexTerms - **Liberalization, Globalization, Trade ,Population, Migration, Market**.

I. INTRODUCTION

II. By the term globalization we mean opening up of the economy for world market by attaining international competitiveness. Thus the globalization of the economy simply indicates interaction of the country relating to production, trading and financial transactions with the developed industrialized countries of the world. Globalization of the economy depends on the rule of international trade, movement of capital and integration of financial market. Globalization is thus the integration of economic, cultural, political, religious and social systems reaching the whole world and practically all human beings.

III. The idea of globalization is not new, though. The world has seen periods of economic integration in the later half of 19th century and early part of 20th century. Massive migrations had taken place from Europe and Asia to North and South America. Trade expanded in 19th century and new technologies of steam power, telegraph and telephones brought goods and people closer together. The process of globalization not only includes opening up of world trade, development of communication, internationalisation of financial markets, growing importance of MNC's population migration. The globalization refers to the integration of economies of the world through unihibited trade and financial flours as also through mutual exchange of technology and knowledge. Ideally it also contains free intercountry movement of labour. In context to India, this implies opening up the economy to foreign direct investment, allowing Indian companies to enter into foreign collaborations and also encouraging them to set up joint ventures abroad, carrying out massive import liberalization, therefore globalization has been identified with the policy reforms of 1991 in India.

Methodology and Data Source

In this paper we have analysed the impact of Liberalization, Privatization and Globalization on Indian economy. The present paper is mainly based on Government of India. Economic survey 2011-12. In some cases, we have also include world bank, world development indicators (2012), Reserve Bank of India bulletin and world investment report (2012). In the present paper we have to focused on the impact of globalization on Indian economy, which includes Foreign Direct Investment inflows, foreign portfolio investment, foreign trade (export-import) and mainly more impacts of globalization on Indian economy.

The Important Reforms of Globalization -

Globalization is the process of integrating various economies of the world without creating any hindrances in the free flow of goods and services, technology, capital and even labour or human capital. 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. Infact this measures was taken in order to resolve the BOP crisis.

Disinvestment - In order to make the process of globalization smooth, Priatization and liberalization policies are moving along as well under the privatization scheme, most of the public sector undertaking have being sold to private sector.

Allowing Foreign Direct Investment (FDI) - 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.

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.

The removal of quantitative restrictions on imports.

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.

India is ranked 18th among the world's leading exporters of services with a share of 1.3 percent in world exports. The services sectors 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 1.1

Sectoral Growth Rates in 9th, 10th, 11th and 12th Five-years plans

Sectors	Ninth Plan (1997-2002)	Tenth Plan (2002-07)	Eleventh Plan (2007-12)	Twelfth Plan (2012-17) Targets
Agriculture, forestry & fishing	2.5	2.3	3.7	4.0
Manufacturing	3.3	9.3	7.7	7.1
Industry	4.3	9.4	7.2	7.6
Services	7.9	9.3	4.7	9.0
Total GDP	5.5	7.8	8.0	8.0

Note : 1997 to 2002 means April 11, 1997 to March 31, 2002 and likewise, Growth rate of GDP is at factor cost.
Source : Planning commission of India.

IMPACT OF GLOBALIZATION

Foreign Investment Flows

Globalization leads to a greater flow of foreign investment, which should help to increase the productive capacity of the recipient economy. It is worthwhile considering this for India.

Foreign investment takes two forms-foreign direct investment (FDI) and foreign portfolio investment (FPI). Foreign Direct Investment helps to increase the productive capacity of the economy, while foreign portfolio investment is of a more speculative nature and is thus very volatile.

A careful perusal of the data on foreign investment given in table reveals that during the period 1990-91 and 1994-95, the share of FDI in total investment inflow was only 24.2 percent and that of FDI was 75.8 percent. In other words, only a quarter of the total using productive capacity while about three quarters as very voatile. For the 5-year period (1995-96 to 1990-00), the proportion of FDI in total foreign investment improved to 54-8 about 45 percent. During the next 10 years period (2000-01 to 2010-11), the share of FDI was 80.8 percent and that of FPI was 59.2 percent.

Table 1.2

FDI inflows in India by different Country)

Year	Foreign Direct Investment (FDI)	Foreign Portfolio Investment (FPI)	Total
1990-91 to 1994-95	24.2	75.8	100.00
1995-96 to 1999-2000	54.8	45.2	100.00
2000-01 to 2011-12	61.8	38.2	100.00

Source : Reserve Bank of India Bulletin, Handbook of Statistics on the Indian Economy (2011-12), RBI Bulletin June 2011.

It would be desirable to understand the sectors in which FDI flows so as to analyze whether these inflows help to enlarge the productie capacity of the economy. Data provided in Table 1.2 reveals that there are 10 sectors which are attracting FDI inflows. out of the total FDI from April 2000 to March 2013, nearly 48 percent pertained to five sectors viz., service sector, construction and development, telecommunication computer software and hardware and drugs and pharmaceuticals. However, initially actual inflows revealed a wide gap between FDI approvals and actual inflows. For instance, as against total approvals in the energy sector of the order of Rs. 77,825 crores, the actual FDI inflow was merely Rs. 9,902 crores (12.6 percent) between January 1991 and March 2004.

Table 1.3

Sectors Attracting Highest FDI Equity Inflow

Sl. No.	Sector	2010-11 (April-March)	2011-12 (April-March)	2012-13 (April-March)	Comulative Inflows (April'00-March 13)	%age to total inflows (In terms of US$)
1.	Service sector	3296	5216	4833	37,235	19%
2.	Construction Development : Township, Housing - Built-Up Infrastructure	1663	3141	1332	22080	11%
3.	Telecommunication (Radio, Paging, Cellular Mobile, Telephone Service)	1665	1997	304	12856	7%
4.	Computer Software & Hardware	780	796	486	11691	6%
5.	Drugs & Pharmaceuticals	209	3232	1123	10318	5%
6.	Chemicals (other than fertilizer)	2354	4041	292	8881	5%
7.	Automobile Industry	1299	923	1537	8295	4%
8.	Power	1272	1652	536	7834	4%
9.	Metallurgical Industries	1098	1786	1466	7507	4%
10.	Hotel & Tourism	308	993	3259	6631	3%

Note : Services sector includes financial, banking, Insurance, Business, Outsourcing, R&D, Courier, Tech. Testing

Source : Department of Industrial and Promotion Government of India, 2013.

India's share in FDI Inflows

A review of the world situation in FDI inflows reveals that 44.9 percent of the total inflows are made to the developed countries. 49.1 percent to the developing countries and only 6.0 percent to central and East Europe in 2011. Out of this flow, India received 2.0 percent, Brazil got 4.4 percent, Mexico 1.3 percent, but China received a big share of 7.5 percent ($ 114.7 billion) in 2011. The point which deserves attention is that nearly 51 percent of the FDI inflows go to benefit developed countries and Eastern European economies and 49 provide assistance to developing countries.

Table 1.4

FDI Inflows (2011)

Countries	Inflows	Percentage Share
World	15,24,422	100.0
Developed countries	6,84,399	44.9
Developing Economies	7,47,860	49.1
Transition Economies	92,163	06.0
China	1,14,734	7.5
India	31554	2.0
Brazil	66,660	4.4
Mexico	19,554	1.3

Source - Compiled and computed from UNCTAD, World Investment Report (2012)

Foreign Trade (Export - Import)

One of the Principal aim of globalization is to expand trade in goods and services. The world commission in this context states. This trade expansion did not occur uniformly across all countries, with the industrialized countries and a group of 12 developing countries accounting for the lion's share. India fails to attain export target of US $ 325 billion in 2013-14. As per provisional data India's export stood at US $ 312.355 billion in 2013-14 an increase of 3.98 percent over US $ 300.400 billion in 2012-13.

Table 1.5

Foreign Trade Figures

	2011-12	2012-13	2013-14
Export	304.624	300.571	312.35
Import	489.181	491.487	450.95
Trade Defecit	184.558	190.916	138.59

Source : Reserve Bank of India, Annual Report 2013-14.

During the 15 - year period (1995-2010). India's merchandise exports increase at the rate of 14.2 percent, while that of china increased at the faster rate of 17.1 percent and that of Mexico at the rate of 9.2 percent. However, compared to the world average annual exports of 7.4 percent during the period. India did benefit from globalization in increasing its exports growth rate. But India's share in world merchandise exports improved only marginally from 0.59 percent in 1995 to 1.62 percent in 2011.

India's performance in service sector exports was relatively much better. Service exports increased from $ 10.0 billion in 1995 to $ 137.1 billion in 2011. Indicating an annual average growth rate of 18.2 percent during the period. Much of this increase was due to software exports as a consequence of outsourcing by developed countries.

If we pool together Merchandize and service sector exports, it becomes evident that India's exports of to $ 438.63 billion in 2011, indicating an annual average growth rate of 15.4 percent. As a consequence, India's share in world exports of goods and services improved from 0.63 percent in 1995 to 1.94 percent in 2011. As against this, China's share improved from 2.7 percent in 1995 to 9.24 percent in 2011 and that of

Mexico from 1.4 percent to 1.62 percent. There is no doubt that India has gained as a consequence of globalization in improving its share of world exports of goods and services to 1.94 percent, but considering the size of its economy, the gain is much smaller when compared with south Korea, Mexico and China.

Table 1.6

Exports of Marchandise and Service of Selected Countries of the World

(US $ in Million)

Merchandise Exports	% of World Export		Average Annual Growth Rate (1995- to 2011)
	1995	2011	
India	0.59	1.66	15.2
China	2.88	10.43	17.3
Brazil	0.90	1.40	11.3
Mexico	1.54	1.92	9.7
South Korea	2.42	3.05	9.8
Exports of Services			
India	0.82	3.18	17.7
China	2.02	4.23	13.3
Brazil	1.08	0.88	6.9
Mexico	0.74	0.35	3.4
South Korea	2.08	2.19	8.6
Exports of Merchandise and Services			
India	0.63	1.94	16.0
China	2.71	9.24	16.8
Brazil	0.93	1.30	10.5
Mexico	1.38	1.62	9.3
South Korea	2.35	2.89	9.6

Source : Compiled and computed from the data provided in world bank, world development indicators (2012) UNCTAD, Hand book of statistics 2009.

IMPACT ON POVERTY

There was a clear trend towards decline rural and urban poverty till 1990-91. The pre-reform period poverty fell by 36.5 percent from 55.72 percent in 1973-74 to 35.37 percent and urban poverty by 31 percent from 47.96 to 33.08 percent during the same period. However, the situation significantly changed since the 90. Sharply widened during the reform period, while rural poverty increased by 3.10 percent urban poverty declined by 12.3 percent. This proves that the overall situation of poverty became worse after the reform, because most of the people live in villages.

IMPACT ON EMPLOYMENT

In India, the employment situation has been worsened in the era of globalization. The rate of growth of employment which was of the order of 2.04 percent per year during 1983-94 declined to a low level of 0.98 percent during the period 1994-2000. This was largely a consequence of negative growth rate of employment in agriculture which absorbed about 65 percent of total employed workers.

Further, globalization pushed workers from the organized sector to swell the ranks of workers in the unorganised sector. It is common knowledge that workers in the organised sector are relatively better paid than those in the unorganised sector. Globalization, therefore, increased the process of information of the economy. For instance it has led to a process of causualization of workforce. As per report of National Sample Survey, it reveals that the proportion of casual workers which was 28.7 percent in 1983-84 increased to 32.2 percent in 1990-2000.

Strategic Information Management

Globalization trends demand on evaluation of the skills portfolio that organizations require in order to participate effectively in their changing markets. Coordination among increasingly complex networks of activities dispersed worldwide is becoming a prime source of competitive advantage. Globalization must begin to manage the evaluation of global IT architecture that forms an infrastructure for the coordination needs of a global management team. Globalization demands an evolution of a global business strategy and its alignment with the evolving global IT strategy.

CONCLUSION

The process of globalization started in 1991 has a far reaching impact on Indian economy. Some feel that it has made a sea change in the outlook of the corporate sector especially on external sector front. 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. India, which is now the fourth largest economy in terms of purchasing power parity, may overtake Japan and becomes third major economic power with in 10 years.

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