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Impact of Globalization on the Indian Industries: A Study

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Abstract – Globalization is a process, which involves economic inter-dependence of countries world-wide removing all barriers for economic integration as if the whole world is a single village. The essence of globalization is active cross-border capital flows, technological changes between the countries, integration of market world-wide, free flow of trade, movement of persons across the border, regional cooperation in various parts of the world and rapid integration of financial markets'.

Globalization is both a benefit and a challenge. It is an inevitable, and irreversible process for the world economy and the international market. In reality, there is significantly more interaction now than it was a century ago. The technological development has made movement of people, goods and capital more wide-spread, frequent and deeper. Active cross-border capital flows have improved the efficiency of the allocation of the world financial resources and improved people's standard of living. As a result, a country can grow faster. Growth of media and Internet connections are fuelling economic growth and human advances. All these offer enormous potential to eradicate poverty in the 21st century.

The challenges of globalization in the new century is not to stop the expansion of global market only, but also for setting rules and institutions for better governance at local, national, regional and global levels. Further, globalization is not just to preserve the advantages of global market and competition but also to provide enough space for human, community and environmental resources to ensure that globalization works for people and not just for profits.

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INTRODUCTION

Today's globalization is being driven by market expansion and hence the industry will open national borders to trade, capital, information technology that is speeding up the markets and its benefit for the people. The integration of world markets and fast growing technology leads to efficiency gains and growth driven by the lower transaction and information costs. These in turn have increased the competition through low cost and high efficiency and productivity and low barriers to enter into new investment opportunities. Information Technology industry has made services more tradable on a cross-border basis. As a result, a significant improvement has taken place after globalization in intra-industry trade' i.e., trade in which intermediate goods are taken from one country to another higher than before apart from the growth of inter- industry trade.

While freeing Indian industry from official controls, opportunities for promoting foreign investments into India have also been fully exploited. In view of the above, 34 high-priority industries are allowed Foreign Direct Investments [FDI] automatically. The existing manufacturing and trading companies are also allowed to raise foreign equity capital. To catch Multi National Companies (MNCs) in the industries, 100 percent foreign equity also has new sectors such as mining, banking telecommunications high way combustion and management have also been thrown open to private, including foreign-owned companies.

There is a great need for promoting an industrial environment where the acquisitions of technological capabilities have priority. In view of the above, Indian companies need to negotiate the terms of technology transfer with its foreign counterparts according to their own commercial judgment.

It is during this time, Government adopted a new approach towards public sector enterprises, and that is, it decided to strengthen them. Such enterprises will be provided a much-greater degree of management autonomy through the system of Memorandum of Understanding **(**MOU**).** Competition is also induced by inviting private sector participation in the case of selected public enterprises, part of government holdings in the equity share capital have been decreased in order to provide further market discipline.

With the growing complexity of industrial structure and the need for achieving economies of scale for ensuring higher productivity and competitive advantage in the international market, the interference of the government through the MRTP act was simplified.

The New Industrial Policy and the Government's commitment under World Trade Organization **(**WTO**)** element led to policy changes, which posed challenges to Indian industry, imports largely freed and placed on Open General License (OGL) system and tariffs were reduced. However each country is given to some extent the freedom to protect its national intern.

The observation reveals that in the total foreign trade, the exports are increasing at a decreasing rate but the imports are increasing at an increasing rate. As a result, the balance of trade is becoming unfavorable to India during the post globalization period.

On the other hand, the exports are increasing at a faster rate than the impose, leading to a favorable balance of trade during the post globalization period. If this were not the situation it would have still worsened the balance of trade in total foreign trade.

REVIEW OF LITERATURE:

The review shows that the earlier researches have been in the categories like

1. Studies on industries

2. Studies on MNCs

3. Comparison between MNCs and domestic companies

4. Studies on Foreign Investment in India.

I Dilip **S.** Swami, in his work, "India's foreign investments policy An appraisal through American corporations has made some pointed remarks on the US based MNCs. He has stated that "The evolution of the US based MNCs is marked by two features, i.e., accelerating the growth of industry and banking combined with multi nationalization them operations have enabled a few US corporations to increase their control over the world production. Secondly, "as the US based corporations are transferring more and more of their factories to the low wage economies and their growth is increasingly foreign based, they are fast converting the US into a "renter society" which lives off investment income".

2. Dilip **S.** Swami has also analyzed the impact of the presence of American MNCs in India. He says, in 1971, the total share of US foreign capital in India was about 52 percent while UK had just 14.5 percent. He also states that only domestic sources were wed to fund capital for their operations to the extent of 95 percent.

3. Lalit Johri examined the business strategies of MNCs in India. He found that 45 MNCs were having more than 40 percent foreign equity. He analysed the functional policies and the outcome of various policies on them companies.

4. Ashok Kumar Bose made a study on the MNCs and developing nations. He revealed the exploitation of the developing countries by multinationals through transfer pricing, taking away a large portion of profit. His study says that the MNCs sent huge amount to their homeland. In 1972 alone, the MNCs had taken away Rs.95 crores. The multinational drug companies placed the Indian consumers in a pitiable condition and repatriated huge profits is a concealed form through transfer pricing, and in an open form through payment for patents, technical fees, etc.

5. John Mohan Raze is perhaps the strongest critic of multinationals in India. In his work "Transnational Corporations Development Debacle", he condemns the MNCs calling them "totally unethical" and "anti-people". The interest of the MNCs are always at variance with the national goals and they bring in an inappropriate technology which widens the gap between the rich and the poor and makes the third world community always dependent on these multinationals. Speaking about India, he maintains that nearly so percent of the 50 world corporate giants arc involved in India. Referring to their political role, he observes that these MNCs with tremendous financial power at their command and their fm grip over raw materials, minerals and other sources of the third world countries; they maintain their hold through massive financial support to antidemocratic elements and have become states within states.

6. The RBI has analyzed at regular intervals the finances of foreign controlled rupee companies. The overall assessment of the performance of these companies (FCRCs), in all surveys is that the FCRCs recorded impressive performance like higher rate of profit, return on share holders equity, etc., and they relied to a large extent on local servers for their capital and so did not export **as** much as they were expected to do. Because of this, the dividend remittances by US controlled companies were about 8.5 percent.

7. Sanjay La1 and Sharif Mohammed of New Delhi, examined the industrial determinants of foreign ownership of shares in the large private corporate manufacturing sector in India using the data on foreign ownership They found that overseas investment is concentrated in activities like technologies, large-scale production and intensive management.

8. American Centre, New Delhi, and the Indo-American Chamber of Commerce and industry have brought out studies and monographs on American investment in India. Of these "Indo-US Joint venture partners in progress", published in 1989, "Climate for investments", published in 1981. The study on India-US Joint ventures has stated that American Investment has proved to be beneficial not only to

American economy but also to the participating US investors.

9. The study by Subramanian and Pillai (1979) is one of the earliest studies on micro level implications of foreign collaborations in India. It has analyzed the performance of firms in the chemical and engineering industries with different levels of foreign equity shares. The study tested the hypothesis that higher levels of foreign control.

RESEARCH METHODOLOGY:

The research of the study have been to find out the impact of the Globalization on the Indian industry, the secondary data relating to the Macro Economic variables like the

I . Increase in the investments,

2. The growth in the form of number of companiu and the size of the operations,

3. Investments in the research and development,

4. The growth in the production, consumption and exports,

5. Increase in the imports to benefit the Indian users,

6. The foreign exchange earnings,

7. The linkage effect for the growth of the Indian economy and other such vital information were collected for two different periods like pre and post - globalization period, and find out the changes in the growth and other related parameters. It is not possible for the study of this nature to see the impact on the economy as a whole by taking all the sectors of the economy.

The Indian pharmaceutical industry is a highly fragmented one. It is divided into two, namely, Organized and Unorganized section. Of the total 250 units in the organized sector, 5 are in the public sector, 7 are in the Joint sector and 238 are in the private sector and also owned by foreigners. Again in the organized sector, about 100 manufacturing units are controlling the market share of more than 10 percent. The unorganized sector consists of a total of 19,803 units of which 5000 units are in the small scale sector and 14,803 are in the tiny sector. Under the organized sector, the performance of the public sector pharmaceutical units are on a declining trend, which is evidenced from the market share of 10 percent in 1970 to 2 percent in 1982, 1 percent in 1995 and almost nil today. The Joint sector enterprises are also not in a comparable position with the private companies.

NEED OF THE STUDY:

Since India has completed twelve years after the implementation of the new economic policy incorporating the globalization of the Indian economy with global economy and also after implementing the structural changes in the Indian industries, there is a need for evaluating its performance to find out as to whether the globalization has benefited the Indian industries or not. Even though Globalization is a macro concept covering all the industries, its impact is more seen only in the industries like pharmaceutical industry, agriculture and the information technology etc., Out of these, the pharmaceutical industry has created a major impact in turning the unfavorable trade into a favorable one and hence its evaluation will work as a guide post for the policy framers on the industrial side to make necessary amendments, if necessary, to safeguard the Indian industries **as** the other countries have done.

The globalization and a few other legislative measures have changed the pattern of holding the market i.e., the status of industry which was very low before 1991, has improved tremendously to 75 percent in the recent period. At the same time, now there is a heat for this increased market share due to the shift from the process patent to product patent.

OBJECTIVES OF THE STUDY:

As stated above, the study is to analyze the impact of Globalization on the Indian industries in terms of its growth, performance, its capacity to increase exports, employment, income etc., so as to find out whether the Globalization has created favorable effects, has caused any ham to it, so that, based on this, the remedial measures can be suggested. The study primarily aims are :

I. To examine the impact of globalization in terms of the growth of the Indian industries in general.

II. To evaluate the impact of the regulatory policies imposed by the government on the industries from time to time in terms of the trends in the growth of the industries in India.

III. To analyze the operating performance of the pharmaceutical Industry due to the introduction of globalization in the Indian industries.

IV. To analyze the financial performance of the pharmaceutical industry due to the introduction of the globalization in the Indian industries.

V. Finally, it attempts to offer suggestions to the policy makers based on the findings.

SCOPE OF THE STUDY:

Globalization policy of 1991 brought with it a complete change in the perception of all industries in India, especially the export-oriented industries" A sequence of collaborations, mergers, acquisitions and joint ventures have come into force and such managements are found to be all the more necessary in highly export oriented industries like drugs and pharmaceuticals. The globalization has opened up opportunities for significant inflow of foreign investments in to India. This is witnessed relatively more in the pharmaceutical industry**.** The cheap labor and huge population, which can provide the ideal market for testing the effectiveness of the dump was the factors that contributed to the successive governments becoming more and more conscious of health conditions of people, with the ever increasing population, the domestic and international demand for drugs has also been increasing. Added to this, the government also has relaxed Price Control for domestic market.

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