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REVIEW ARTICLE

IMPACT OF GLOBALIZATION ON INDIAN ECONOMY

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Impact of Globalization on Indian Economy

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INTRODUCTION

Globalization is the new buzzword that has come to dominate the world since the 90's of the last century with the end of the cold war and break-up of the former soviet union & the global trend towards the rolling ball. Through globalization has generated significant international opposition over concerns that it has increased inequality and environmental degradation. There is need to study the impact of globalization on developing countries from the view point of inward foreign direct investment. Globalization has brought in new opportunities to developing countries. Greater access to developed country markets and technology transfer hold out promise improved productivity and higher living standards.

India opened up the economy in the early 90's following a major crisis that led by a foreign exchange crunch that dogged the economy close to defaulting on loans. The response was a slew of domestic and external sector policy measures partly prompted by the immediate need and partly by the demand of the multilateral organizations. The new policy regime radically pushed forward in favours of a more open and market oriented economy. This paper explores the contours of the ongoing process of globalization, liberalization and privatization. Throughout this paper, there is an underlying focus on the impact of globalization on Indian economy.

MEANING OF GLOBALIZATION:-

Globalization -What does it mean?

Does it mean the fast movement of people which result in greater interaction?

Does it mean that because of IT revolution people can be in touch with each other in any part of the world?

Does it mean trade and economy of each country is open in non-Intrusive way so that all varieties are available to consumer of the choice?

Does it mean the mankind has achieved emancipation to a level of where we can say it means a social, economic & political globalization?

Though the precise definition of globalization is still unavailable a few definitions worth viewing; Stephen Gill: Globalization as the reduction of transaction cost of trans border movements of capital and goods thus of factor of production and goods.

Guy Brainhart: says that the process of globalization not only includes opening up of world trade development of advanced means of communication, internationalization of financial markets, growing importance of MNCs population migration & mere generally, increased mobility of persons, goods capital, data and ideas but also infection, diseases and pollution.

MERITS AND DEMERIT OF GLOBALIZATION:-

The Merits of globalization are as follows:

- There is an international market for companies and for consumers there is a wider range of products to choose from.
- Increase in flow of investments from developed countries to developing countries which can be used for economic reconstruction.
- Greater and faster flow of information between countries and greater cultural interaction has helped to overcome cultural barriers.
- Technological development has resulted in reverse brain drain in developing countries.

THE DEMERITS OF GLOBALIZATION ARE AS FOLLOWS:-

- The outsourcing of jobs to developing countries has resulted in loss of jobs in developed countries.
- There is a greater threat of spread of communicable diseases.

- There is an underlying threat of multinational corporations with immense power ruling the globe.
- For smaller developing nations at the receiving end, it could indirectly lead to a subtle form of colonization

Thus globalization signifies a process of internationalization plus liberalization. It is the process of integrating various economies of the world without creating and hindrances in the free flow of goods and service, technology, capital and even labour or human capital.

STEPS TAKEN TO GLOBALIZE INDIAN ECONOMY:-

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. 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. In fact, this measure was taken in order to resolve the BOP crisis
- **Disinvestment:-** In order to make the process of globalization smooth, privatization and liberalization policies are moving along as well. Under the privatization scheme, most of the public sector undertakings have been/are being sold to private sector.
- **Dismantling of the Industrial licensing Regime:-** At present, only six industries are under compulsory licensing mainly on accounting of environmental safety and strategic consideration. A significantly amended location policy in tune with the liberalized licensing policy is in place. No industrial approval is required from the government of locations not falling within 25 kms of the periphery of cities having a population of more than one million.
- **Allowing Foreign Direct Investment:-** (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. Some of the recent initiatives taken to further liberalise the FDI regime, inter alias, include opening up of sectors such as Insurance (upto 26%); development of integrated townships (upto 100%); defense industry (upto 26%) tea plantation (upto 100% subject to divestment of 26% within five years to FDI); enhancement of FDI limits in private sector banking, allowing FDI up to 100% under the automatic route for most manufacturing activities in SEZs; opening up B2B e-commerce; internet service providers (ISPs) without Gateways; electronic mail and voice mail to 100% foreign investment subject to 26% disinvestment condition; etc. The Department has also strengthened investment facilitation measures through Foreign investment implementation Authority (FIIA).

- **Non Resident Indian Scheme:-** The general policy and facilities for foreign direct investment as Government has extended some concessions specially for NRI and overseas corporate bodies having more than 60% stake by NRIs
- **Throwing Open Industries Reserved For the public sector to private participation** Now there are only three industries reserved for the public sector
- **Abolition of the (MRTP) Act,** which necessitated prior approval for capacity expansion
- **The removal of quantitative restriction on imports.**
- **The reduction of the peak customs tariff** from over 300 per cent prior to the 30 per cent rate that applies now severe restriction on short-term debt and allowing external commercial borrowings based on external debt sustainability.
- **Wide-ranging financial sector reforms** in banking capital makes, and insurance sectors, including the de-regulation of interest rate, strong regulation and supervisory system, and the introduction of foreign/private sector competition.

IMPACT OF GLOBALIZATION ON INDIAN ECONOMY:-

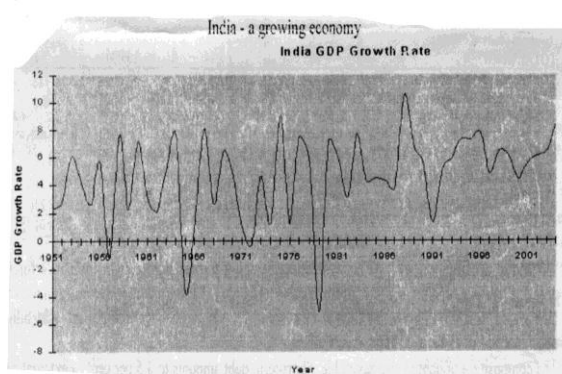
In early 1990's the Indian economy had witnessed dramatic policy changes. The idea behind the new economic model known as Liberalization, Privatization and Globalization in India (LPG), was to make the Indian economy one of the fastest growing economies in the world. An array of reforms was initiated with regard to industrial, trade and social sector to make

the economy more competitive. The economic changes initiated have had a dramatic effect on the overall growth of the economy. It also heralded the integration of the Indian economy into the global economy. The Indian economy was in major crisis in 1991 when foreign currency reserves went down to \$1 billion and inflation was as high as 17%. Fiscal deficit was also high and NRI's were not interested in investing in India.

Then the following measures were taken to liberalize and globalize the economy

IMPACT ON GDP GROWTH-RATE:-

Globalization in India had a favorable impact on the overall growth rate of the economy. This is major improvement given that India's growth rate in the 1970's was very low at 3% and GDP growth in countries like Brazil, Indonesia, Korea, and Mexico was more than twice that of India. Though India's average annual growth rate almost doubled in the eighties to 5.9%, it was still lower than the growth rate in China, Korea and Indonesia. The pick-up in GDP growth has helped improve India's global position. Consequently India's position. Consequently India's position in the global economy has improved from the 8th position in 1991 to 4th place in 2001; when GDP is calculated on a purchasing power parity basis. During 1991-92 the first year of Rao's reforms programme. The Indian economy grew by 0.9% only. However the Gross Domestic Product (GDP) growth accelerated to 5.3% in 1992-93, and 6.2% 1993-94. A growth rate to above 8% was an achievement by the Indian economy during the year 2003-04. India's GDP growth rate can be seen from the following graph since independence.



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 service sector remains the growth driver of the economy with a contribution of

more than 57 per cent of GDP. India is ranked 18th among the world's leading exporters of service with a share of 1.3 per cent in world exports.

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