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IMPACT OF GLOBALISATION ON INDIAN ECONOMY

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ABSTRACT

Globalization is a new motto that has dominated the world since the 1990s with the end of the cold war and the disintegration of the former Soviet Union and the global movement towards a rolling ball. In the face of the current expansion and global development of developing economies, India's major reform initiatives (as in other developing world countries) have been implemented following a fiscal and currency crises, bringing it close to foreign lending default. The decline within and the stress from outside is the consequence of Indian globalisation. Globalization has a clear influence on the Indian economy in the post-globalisation years - foreign currency reserves, international trade, foreign capital inflows, etc. In the foreign sector. This document explores the contours of the current globalisation process. In this paper the impact of globalisation on the Indian economy has been the underlying focus.

1. INTRODUCTION

The growing integration of economies and societies worldwide – one of the topics in international economics that has been most widely debated in recent years. A positive aspect of liberalisation, privatisation and globalizations was rapid growth and poverty reduction in India, China and other poor countries over the last 20 years (LPG). But globalisation has also generated substantial international opposition to concerns that inequality and environmental degradation have increased. The significance of globalisation depends on the context and the person in question. Although the precise definition of globalisation, some definitions are still unavailable. Guy Brainbant said the process of globalisation includes, among other things, not only the opening of world trade, the development of advanced communication methods, the internationalización of financial markets, the growing significance of MNCs, the migration of the population, the increasing mobility of people, goods, capital, data and ideas, but also infections, diseases and pollution. Globalization refers to the integration of the world's economies through uninhibited trade and financial flows as well as the sharing of technology and knowledge. Ideally, it also includes free movement of people across countries (Goyal, 2006).

The impact of globalisation, and particularly of the Indian economy, on developing countries is to be studied. Contrary to the current growth and globalisation of the developed economies, the main reform initiatives in India (like in many other developing countries) have been carried out following a fiscal and foreign exchange crisis that brought India close to a default on foreign lending (Malik, 2008). The decline within and the stress from outside is the consequence of Indian globalisation.In the foreign sector - foreign reserves, international trade, foreign capital inflows, etc. - the effect of globalisation on the Indian economy in the post globalisation years is clearly visible.. This article discusses the contours of the current globalisation process. In this paper the impact of globalisation on the Indian economy is central to this paper. The paper is divided into five parts. Section 1 provides the introduction to globalisation and its general context. Section 2 explained the origin of globalisation in India.Section 3 outlines the major initiatives undertaken as part of the Globalization Strategy by the Indian government.

The impact of globalisation on different fields of the Indian economy is assessed in Section 4. Section 5 covers Indian economy globalization's outcome and future challenges.

2. ORIGIN OF GLOBALISATION PROCESS IN INDIA

India has truly initiated its meaningful globalisation process only since 1991. India was essentially guided by state-owned undertakings in the public sector, which occupied the highest levels before 1991. The controlled prices, exchange rates and investment were guided by the targets set (Gupta and Singh, 1995). Until the early 80s, macro-economic policies in India were considered conservative and oriented inwardly. The Central Government's current revenue exceeded existing expenses, and the capital accounts' deficit was partially financed by a surplus.

In the early 1980s, current income surpluses turned into deficits due to lax fiscal policies (Srinivasan, 2004). The increasing discrepancy between government revenues and spending resulted in increased fiscal deficits to be met by domestic borrowing. In addition, the constantly growing difference between economic income and expenditure as a whole led to a large balance of payments balance of current account deficit financed from foreign borrowing. In 1981-82 the revenue deficit had increased from 0.2 per cent of GDP to 3.3 per cent of GDP from 1990 -91.The worst development, however, was a steep rise from 5.7 per cent of GDP in 1980-81 to 6.6 per cent of GDP in 1990-91 in the gross fiscal deficit. Since the financial deficit had to be met through the use of borrowing, the central government's internal debt increased rapidly from 35 per cent of GDP in 1980-81 to 49,8 per cent of GDP in 1990-91. In addition, interest payments on the debts increased rapidly as well. That naturally made it difficult to maintain the debt (Mishra and Puri, 2007).

In addition, at the turn of the decade, the Gulf War in 1990 and the political instability contributed to the fall of the international trust in the Indian economy, and this led to the balance of payment crisis in 1991. Inflation was increasing, industrial production declined, foreign reserves were at the lowest level ever at one trillion US dollars and international defaults were real (Ahluwalia, 1999). Expectations for devaluation of the rupee, as well as a decline in confidence have caused non-resident Indians to withdraw deposits into the Indian banks and other external investors to withdraw their capital. The exchange reserves have dropped to a level lower than the import cost of two weeks. The spectres of short-term external loans defaulted significantly and led to India's credit rating being reduced (Gupta and Singh, 1995).

The government decided to adopt the globalisation's policy in response to the crisis situation between 1990 and 91. The main aim of this policy was to free foreign traders' domestic markets, by removing controls on industrial and importation investment, lowering import tariffs and establishing a more favourable environment for attracting foreign capital (Srinivasan, 2004).

3. STEP TOWARDS GLOBALISATION

India's economy in July 1991 was in significant emergency with unfamiliar cash holds falling almost $1 billion; expansion had ascended to 17 percent yearly; financial shortage was extremely high and unreasonable; and Indian certainty lost by unfamiliar financial backers and NRIs. The Indian economy was in a profound emergency. Capital flew out of the nation and we were close to advance default. Notwithstanding these home-constructed bottlenecks, the economies of nations in the west and east, South East Asia, Latin America, and different nations have moved through numerous unforeseeable changes at a similar time.These were monetary impulses in Germany and abroad which required a full update of our financial projects and arrangements (Goyal, 2006). In the mid 'nineties the accompanying included key activity embraced under the advancement and globalization system:

- **Devaluation:** With announcement of an 18-19 per cent devaluation in the international exchange market of the Indian currency against major currencies, the first step towards globalisation has been taken. Actually, this action has been taken to resolve the BOP crisis.
- **Disinvestment:** The privatisation and liberalisation policies are also moving forward to make the process of globalisation smooth. Under the privatisation scheme, the majority of companies in the public sector have been/are sold to the private sector.
- **Dismantling of The Industrial Licensing Regime:** Currently, only six industries under mandatory licencing are mainly responsible for accounting for safety and strategy. There is a substantially amended local policy that is in keeping with the liberalised licencing policy. Industrial approval of sites not falling within 25 km of the outskirts of cities with more than one million population is required by the government.
- **Allowing Foreign Direct Investment (FDI):** Wide range of industries and the promotion of non-debt flows. The Ministry has established a liberal and transparent system of international investment, in which most operations are open to foreign investment on an automatic basis, without any limit on the scope of international ownership. Recent initiatives for further development **FDI Regime Liberalization** Among others, opening up industries such as insurance (up to 26 per cent); developing integrated townships (up to 100 per cent); defence (up to 26 per cent); tea plantation (up to 100 per cent of which will have a 26 per cent disinvestment in FDI over five years);Improving FDI limits in the private sector banking sector, enabling up to 100 per cent automatically for most manufacturing activities in SEZs, opening B2B e-commerce, ISPs free of gateways, e-mail or tele mail to 100 per cent foreign investment, subject to 26 per cent divestment condition, etc. The department also strengthened investment facilitation measures through the implementation authority for foreign investment (FIIA).
- **Throwing Open Industries Reserved For The Public Sector to Private Participation.** Now there are only three public sector industries.
- **Abolition of the Monopolistic Restriction (MRTP) Act***,* Which required prior capacity expansion approval.
- **The abolition of quantitative import restrictions.**
- **The reduction of the peak customs tariff** from more than 300 per cent before the now applicable 30 per cent rate.
- **Strict short-term indebtedness restrictions and external trade borrowing** sustainability based on external debt.
- **Comprehensive reforms to the financial sector** in the banking, capital and insurance sectors, which include deregulation, strong regulation and surveillance systems and the establishment of competitive competition between the external and the private sector.

4. IMPACT OF GLOBALISATION ON INDIAN ECONOMY

There are many consequences for the national economy of globalisation. Globalization has increased interdependence and competition among the world market economies. The following significant benefits have been achieved from these economic reforms:

Impact on GDP and Per Capita GDP

In India, globalisation had a favourable effect on the economy's overall growth rate. During the reform period, Indian GDP and per capita GDP improved considerably. During the reforms India improved substantially. Table 1 shows that the average annual growth rate of India's total GDP and per capita GDP (i.e. 5.7 per cent and 3.6 per cent respectively) remained significantly above that in the period 1980-2005. (i.e. 2.7 per cent and 1.1 per cent respectively).In addition, it is worth noting that the growth of Indian GDP per capita and total was higher during the post-globalization period than the pre-globalization time period as a result of high rates of domestic savings and foreign capital inflows that enabled an increasing rate of investment and an increased growth in industrial output.

Table 1 : Average Annual Growth Rate of Total and Per Capita Real GDP: India and World

Countries	1980-90		1990-00		2000-05		1980-2005	
	Total GDP	Per Capita GDP	Total GDP	Per Capita GDP	Total GDP	Per Capita GDP	Total GDP	Per Capita GDP
1. India	5.8	3.4	6.0	3.9	6.7	5.0	5.7	3.6
2. World	3.1	1.3	2.8	1.3	2.8	1.5	2.7	1.1

Source: Statistical Manual 2006-07, UNCTAD.

Impact on Savings and Investment

During the period of globalisation, Indian GDP has slightly enhanced its share of gross domestic savings and gross domestic capital formation. Table 2 shows that India's average yearly savings share of GDP in India grew from 22.70 per cent in 1991–95 to 28.62 per cent in 2001-05. Whereas in its GDP the proportion of gross domestic capital was increased from 23.86% in 1991-95 to 28.29 per cent in 2001-05. Thus, although the gross domestic savings and the formation of gross domestic capital in India has improved slightly, they remain very low compared to other developing countries, such as China.

Table 2 : Average Annual Percentage Share of Savings and Investment in GDP: India

Years	Gross Domestic Saving	Gross Domestic Capital Formation
1991-95	22.70	23.86
1996-00	23.45	24.55
2001-05	28.62	28.29
1986-2005	23.97	25.19

Source: Key Indicators of Asian Development Bank (Various Issues).

Impact on Various Sectors of the Economy

The globalisation process in India has a huge impact on its different sectors. Table 3 shows the proportion of Indian GDP in all three sectors. The share of farming in India's GDP decreased significantly over the globalisation period (i.e. from 28.52 per cent during 1991-95 to 20.42 per cent during 2001-05). This decline, however, was primarily absorbed by services, from 45.01per cent in 1991-95 to 52.99 per cent in 2001-05, by the agriculture sector. On the other hand, the industry's share remained virtually unchanged and fluctuated around 26 per cent. Therefore, it is possible to say that India's service sector was the main driver of economic development during the globalisation process.

Table 3 : Average Annual Percentage Share of Agriculture, Industry and Service Sector in GDP: India

Years	Agriculture	Industry	Service
1991-95	28.52	26.48	45.01
1996-00	25.57	26.27	48.16
2001-05	20.42	26.59	52.99
1986-2005	26.32	26.78	46.90

Source: Key Indicatives: Asian Development Bank (Various Issues).

Impact on Goods and Services Trade

In India, trade in goods and services has expanded substantially during the reform period. But the share of trade in services improved more quickly than trade in goods. This can be seen from Table 4, which states that during 1991-1995 the share in exports and imports decreased from 80,61 per cent and 78,23 per cent to 69,61 per cent and during 2001-2005, respectively, to 72,77 per cent. In the 1991-95 period, the percentage of exports and imports of services increased from 19.39 per cent, 21.77 per cent, to 30.39 per cent and 27.23 per cent respectively, in 2001-2005.It can therefore be said that the share of the trade in services also improved considerably during the period of globalisation with the strengthening in the Indian economy of the service sector.

Table 4 : Average Annual Per centage Share of Goods Trade and Service Trade in Total Exports and Imports: India

Years	Exports		Imports	
	Goods	Services	Goods	Services
1991-95	80.61	19.39	78.23	21.77
1996-00	76.08	23.92	76.84	23.16
2001-05	69.61	30.39	72.77	27.23
1981-2005	75.93	24.07	77.41	22.59

Source: Payment Statistics Annual Balance Book, IMF (Various Issues).

Impact on Merchandise Trade and Balance of Payments

India dramatically reformed its external trade regime over the reform period which greatly promoted foreign-trade development and contributed to rapid economic development (Yin, 2004). India has had a negative trade balance due to a much lower export value than that of imports in all sub-periods. In all the subperiods, India has also had a large negative account balance, except the last, i.e. 2001-05. In this time, the exports of services from India increased dramatically, turning the negative balance of the current account into a positive one. The average annual overall balance of payments in India between 1986-90, was negative (i.e. $-399 million in the United States).This occurred mainly as a result of the 1990 balancing crisis. However, the globalisation and liberalisation policies were initiated thereafter, which improved India's receipts of capital and therefore resulted in a positive balance of payments. It therefore improved from 2941 million US $ in 1991-95 to 20275 million US $ in 2001-05. (Table 5).

Table 5 : Average Annual Growth of Trade Balance, Current Account Balance and Overall Balance: India (US $ Million)

Years	Merchandise Exports	Merchandise Imports	Trade Balance	Current account balance	Overall Balance
1991-95	23378 (11.58)	27151 (10.97)	-3773	-3578	2941
1996-00	37301 (8.10)	52371 (9.25)	-15070	-4664	4936
2001-05	71024 (18.77)	95329 (23.30)	-24305	2434	20275
1986-2005	36429 (13.15)	48669 (13.20)	-12240	-2989	6938

Note: Figures in parentheses show average annual per centage growth rates.
Source: Key Indicators of Asian Development Bank (Various Issues).

Impact on Foreign Direct Investment Inflows

India has not sought a higher share in relatively more stable FDI since independence and instead has chosen to make foreign investment even more volatile (FPI). The reason was that there was then a powerful class of private capitalists in the India which, for forty years up to 1990-91, were protected from the strict import control regime and this class of capitalists did not want FDIs but advocated them mainly by way of joint venture and in areas such as the physical infrastructure where it would be complementary (Tendulkar and Bhavani, 2007). But FDI inflows in India increased considerably since the mid-eighties.After the beginning of the process of globalisation, India opened its doors to FDI inflows and attracted huge amounts of FDI inflows. As Table 6 showed, overall FDI in India significantly increased from 797 million $ in 1991-95 to 5574 million $ in 2001-05. In 1991–05 however, India's FDI average annual growth decreased significantly from 96.54 per cent to 16.29 per cent in 2001–05.

Table 6 : Level and Average Annual Growth of Foreign Direct Investment Inflows: India

Years	India[1] (US$ Million)	Average Annual Growth
1991-95	797	96.54
1996-00	2906	16.23
2001-05	5574	16.29
1981-2005	1904	57.79

Note: 1. Figures are in average.
Source: UNCTAD World Report on Investment (Various Issues).

5. CONCLUSIONS AND FUTURE CHALLENGES FOR THE INDIAN ECONOMY

In conclusion, India has increased its total GDP growth, the per capita GDP, the rate of savings, investment, the service, trading in services, the balance of payment and the foreign investment regime during the post-globalization period. However, globalisation has not been beneficial to improved agriculture and industrial sectors in India. Therefore, whatever growth the Indian economy has accomplished during the post-globalization period, it seems to be a very small success in comparison to other developing countries, such as China.Therefore, the lesson from the recent globalisation's experience is that India must select carefully a combination of policies that best take advantage of it -

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while avoiding falls. However, the Indian economy faces many challenges as follows to achieve the best possible outcomes of globalisation:

- Sustain growth and achieve an average yearly growth rate of 9-10 per cent;
- Simplify procedures and remove obstacles to entry into enterprise and provide investor-friendly legislation and taxation system;
- Check population growth; India is after China, the world's second most populous country. But India exceeds China by density, since the Indian land area is nearly half the total of China. India exceeds China. GNI per capita remains very poor due to high population growth;
- Encourage agricultural growth by diversifying and developing the agricultural processing industry;
- expand industry rapidly, integrating not only surplus work on agriculture by at least 10 percent per year, but also the unforgettable numbers of women and young people joining the working group annually;
- Development of world-class infrastructure in all economic sectors to support growth;
- Permitting foreign investment in additional areas;
- Implement fiscal consolidation and eliminate the revenue deficit by improving revenue and managing expenditure;
- Some see globalisation, at the expense of local culture, as a spread of western culture and influences. It is also a challenge to protect domestic culture;
- Global companies are responsible for global warming, natural resources depletion and the production of harmful chemicals and organic agricultural destruction;
- The government should reduce its budget deficit with adequate pricing mechanisms and better subsidy direction;
- To empower the population through universal education and healthcare, India must maximise the advantages of its youthful demographs and become the world's knowledge hub through ICT in all aspects of Indian life, although the government is committed to promoting economic reforms and building basic infrastructure While India is committed to supporting Government has reduced foreign trade and investment controls in certain fields and has indicated greater liberalisation in the future of the civil aviation, telecommunications, and insurance sectors.

Globalization is unavoidable in today's world, and the challenges and opportunities it provides must be prepared for. In other words, the globalisation process is universal. No country is excepted by the Indian economy and therefore by this process. The United States is the largest economy in the world for over a century but significant developments have occurred in the world economy since that time, from the USA and the rich countries of Europe, the focus has been shifted to the two Asian giants – India and China. In the 21st century, economic experts and several studies carried out around the globe plan India and China to rule the world.

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