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Globalization and Indian Economy

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ABSTRACT

The role of globalization in alleviating poverty has been subject to intense and recurrent debate while the pro-globalization (Globalism) movement propound that it has helped many countries such as India and China to reduce poverty , the alter-globalist have denounced globalization as an unfair development that has increased poverty and widen inequality between the rich and the poor. Globalization in India is generally taken as integrating the economy of the country with the rest of the world. This in turn implies that opening up the economy to foreign direct investment by providing facilities to foreign companies to invest in different fields of economic activities in India; removing constraints and obstacles to the entry of MNCs; allowing Indian companies to enter into foreign collaborations in India and also encouraging them to set up joint ventures abroad; carrying out massive import liberalization programmes by switching over from quantitative restrictions to tariffs in the first place, and then bringing down the level of import duties considerably; and instead of plethora of export incentives opting for exchange rate adjustment for promoting exports. Whether seeds of globalization sown in pre-reform period as many concessions were granted to foreign capital, MNCs were allowed to enter a number of crucial sectors to which their entry was previously restricted and banned. The study is purely based on secondary data. It will have a discussion on negative and positive impacts of globalization on Indian economy.

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INTRODUCTION

Globalization is seen as a process defining the growing interdependence between various economies of the world. The term is also used specifically for economic globalization which stands for aligning regional economies with the global economies through the vehicle of trade, FDI, flow of capital, technological advancement and also wide-scale migration. It was only after the economic liberalization in 1991, Indian economy tasted freedom in real sense.

The LPG Policy of 1991 had four basic premises:

1. Devaluation: Indian currency was devalued by 18-19%.
2. Disinvestment: Many public sectors were sold to the private sector
3. Allowing FDI: FDI was allowed in both in Insurance and Defence sector.
4. NRI Scheme: NRIs were given same benefits as FIIs.

Thus, the policy opened Indian economy to new horizons and embraced privatization in a big way. This served as the first footprint of globalization on Indian economy. Due to the increased global interdependence, all economic policy formulations on a domestic front are not done in isolation from the outside world. They are heavily dependent on international economic health and norms. Likewise, any decision taken at a global platform has direct or indirect impact on domestic policies. Thus, it can be deduced that government has lost policy autonomy to the global forces.

Different countries have been doing trade with one another, for thousands of years. But it got a tremendous boost in last about two decades due to the policies of International Monetary Fund, World Bank and World Trade Organization who have been working on the agenda of developed countries like USA and others European countries. They practically forced underdeveloped countries to adopt full throttle globalization by opening up their local markets to world trade by reducing artificial barriers to such trade. Development of advanced means of communication and transport, internationalization of financial markets and unprecedented mobility of goods, capital, data and manpower have further given boost to the recent process of globalization.

The economy is the main arena in which the process of globalization is at work "Economic Globalization is the increasing economic interdependence of national economies across the World through cross border movement of goods, services, technology and capital, leading to the emergence of a global market place or a single world market. The economic globalization, implemented through neo-liberal economic reforms, has four basic components. They are : (1) Free trade, (2) Unhindered free movement of capital. (3) Creation of environment for free flow of technology and (4) Creation of environment for free movement of labour. Thus as Sundaram written, "Globalization has to do primarily with expansion of trade and investment on a global scale. It has to do with capital and financial markets which have expanded in tandem and whose expansion has been facilitated by introduction of new financial instruments besides stocks such as Securities, Bonds, Derivatives etc. – besides there is the trading in currency itself, which has nothing to do with production and employment – nothing at all to do with improving the living conditions of the people in countries of the globe."

Globalisation can be defined as the growing economic interdependence of countries worldwide through the increasing volume and variety of cross-border transactions in goods and services and of international capital flows through the rapid and widespread diffusion of technology. The fact that is important in today's globalisation that really matters is that the accelerating speed is very fast. In the past it takes years or decades for influence to be passed for such an impact to be made. But today the

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influences or transmission of culture values, language, economy and administration can take place within months. This is the major difference. So globalisation is the transmission or extension of values, goods, services, thought or culture across border and it occurs with accelerated rate. The drivers for this accelerated speed are the technology and economic liberalism and the free movement of people. The nature of capitalism was such that entrepreneurial talent would not be constrained by geographical and legal boundaries.

The phenomenon of globalisation has revolutionised the world and has brought about various changes in the global environment. These changes range from speedier economic transactions to providing numerous ways for social interactions, and to a more comprehensive management of military operations in both peacetime and war. In line with this development, governments all over the world are struggling with fundamental changes in the way they function.

LITERATURE REVIEW

There is an extensive body of scholarly literature that covers the issue of globalization that this literature tries to analyze impacts of the conditions on socio-economic development around the world. The academic scholarship of this issue can be divided into several segments and each of them studies particular problems such as impact of globalization to the state and democracy on a socio-economic development as well as analyzes impacts of globalization on integration and regional cooperation. The significant amount of academic papers is devoted to the problem of often experienced by nation state but not necessarily have the same impact on developmental process, and which have been on a rise in the states. The scholarly research in this area has formed three intellectual camps that have major differences as well as commonalities.

First group of scholars belongs to the camp of those political scientists and economists who believe that globalization have a negative effect on developing countries. This academic group can be represented by several comprehensive studies (Agunias 2006; Cohen 2005; Haas de Hain, 2007). These papers are based on arguments that globalization might have a positive effect on development in the short run, but are irrelevant or negative in the long run. These authors argue those globalizations are such a complex phenomenon that requires looking not only at economic aspects of them, but also at other socio-political factors which are associated with them. They also try to use not only economic analysis of this phenomenon but also try to employ alternative qualitative methods like partial and temporal scales of analysis to find effects of globalization.

The second group of scholars represents a camp of scholars who belief that globalization have a positive impact on socio-economic development. Such authors as Korobkov and Lev V. (2005, 2007); Ivakhnyuk (2006); Jones , Black and Skeldon (2007); and others suggest that globalization in general can be very beneficial for developing countries. They also employ different approaches and methods like time series cross sectional analysis or case studies, to investigate these issues. Some of them tend to look from a global context. For instance, Devesh and Singer (2005) argue that globalization have a positive effect on receiving countries in terms of expanding markets. They suggest that countries are more likely to successfully integrate in the global markets. They also argue that globalization represent a substitution of government spending that mitigates uncertainties in the global markets because they are more stable and they do not constraint governmental policies or decisions unlike FDI or other capital inflows. Some scholars including Korobkov V. and Lev V (2005, 2007) prefer to look at globalization from socio –economic perspectives. In their studies they argue that financial flows have a significant positive effect on stabilizing economic and political system by alleviating poverty and preventing hunger in some places. However they suggest that to make it successful governments have to improve their policies toward transaction process of financial flows and policies. The authors argue

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that weak governmental policies as well as weak civil societies mitigate a full potential of globalization effect. That is why it important to implement certain political and financial initiatives that can contribute to enhancing the impact.

Third academic group represent those scholars who argue that globalization can have positive as well as negative effects on successful development. Such authors as Maimbol and Ratha (2005), Laruelle, Chami, Barajas (2008) suggest that to find out the real significance of globalization is it needed to look at what drives it from different contexts such as global and socio-economic. This type of analysis demonstrates that globalization can offset economic shocks during the crisis time but they also can severely damage local production that will directly affect economic growth of a particular country (Chimomhowu, Piesse and Pinder 2003).

Another body of academic literature deals with political aspects of globalization that are often associated with the spread of democracy and adoption of neoliberal principles by developing countries that lead to modernization and socio-economic growth. The main premise of this academic scholarship is that democratic political and economic institutions provide a background for successful economic development (Thaker, 2007; Halperin, Siegel, and Weinstein, 2005; Grosgean and Senik, 2008; Prezworski, 2004). This approach is known as a *compatibility perspective*. It argues that fundamental civil liberties and democratic process generate societal conditions that are most favourable for economic development (Sirowy and Inkeles, 1990).

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 were 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.

PROS OF GLOBALIZATION

There is no question that globalization has been a good thing for many developing countries who now have access to our markets and can export cheap goods. Globalization has also been good for Multi-national corporations and Wall Street. But globalization has not been good for working people (blue or white collar) and has led to the continuing deindustrialization of America. Supporters of globalization

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argue that it has the potential to make this world a better place to live in and solve some of the deep-seated problems like unemployment and poverty.

1. Free trade is supposed to reduce barriers such as tariffs, value added taxes, subsidies, and other barriers between nations. This is not true. There are still many barriers to free trade. The Washington Post story says “the problem is that the big G20 countries added more than 1,200 restrictive export and import measures since 2008.
2. The proponents say globalization represents free trade which promotes global economic growth; creates jobs, makes companies more competitive, and lowers prices for consumers.
3. Competition between countries is supposed to drive prices down. In many cases this is not working because countries manipulate their currency to get a price advantage.
4. It also provides poor countries, through infusions of foreign capital and technology, with the chance to develop economically and by spreading prosperity, creates the conditions in which democracy and respect for human rights may flourish. This is an ethereal goal which hasn’t been achieved in most countries.
5. According to supporters globalization and democracy should go hand in hand. It should be pure business with no colonialist designs.
6. There is now a worldwide market for companies and consumers who have access to products of different countries.
7. Gradually there is a world power that is being created instead of compartmentalized power sectors. Politics is merging and decisions that are being taken are actually beneficial for people all over the world. This is simply a romanticized view of what is actually happening.
8. There is more influx of information between two countries, which do not have anything in common between them.
9. There is cultural intermingling and each country is learning more about other cultures.
10. Since we share financial interests, corporations and governments are trying to sort out ecological problems for each other. – True, they are talking more than trying.
11. Socially we have become more open and tolerant towards each other and people who live in the other part of the world are not considered aliens.
12. Most people see speedy travel, mass communications and quick dissemination of information through the Internet as benefits of globalization.
13. Labor can move from country to country to market their skills. True, but this can cause problems with the existing labor and downward pressure on wages.
14. Sharing technology with developing nations will help them progress. True for small countries but stealing our technologies and IP have become a big problem with our larger competitors like China.
15. Transnational companies investing in installing plants in other countries provide employment for the people in those countries often getting them out of poverty. True
16. Globalization has given countries the ability to agree to free trade agreements like NAFTA, South Korea Korus, and The TPP. True but these agreements have cost the U.S. many jobs and always increase our trade deficit.

CONS OF GLOBALIZATION

All above improvements in Indian Economy were largely due to changed Economic policies of Government of India. Globalization had only indirect contribution, if any, in above improvements. However, there are some other developments which could not be happy developments.

1. The general complaint about globalization is that it has made the rich richer while making the non-rich poorer. "It is wonderful for managers, owners and investors, but hell on workers and nature."
2. Globalization is supposed to be about free trade where all barriers are eliminated but there are still many barriers. For instance161 countries have value added taxes (VATs) on imports which are as high as 21.6% in Europe. The U.S. does not have VAT.
3. The biggest problem for developed countries is that jobs are lost and transferred to lower cost countries." According to conservative estimates by Robert Scott of the Economic Policy Institute, granting China most favored nation status drained away 3.2 million jobs, including 2.4 million manufacturing jobs. He pegs the net losses due to our trade deficit with Japan ($78.3 billion in 2013) at 896,000 jobs, as well as an additional 682,900 jobs from the Mexico –U.S. trade-deficit run-up from 1994 through 2010."
4. Workers in developed countries like the US face pay-cut demands from employers who threaten to export jobs. This has created a culture of fear for many middle class workers who have little leverage in this global game
5. Large multi-national corporations have the ability to exploit tax havens in other countries to avoid paying taxes.
6. Multinational corporations are accused of social injustice, unfair working conditions (including slave labor wages, living and working conditions), as well as lack of concern for environment, mismanagement of natural resources, and ecological damage.
7. Multinational corporations, which were previously restricted to commercial activities, are increasingly influencing political decisions. Many think there is a threat of corporations ruling the world because they are gaining power, due to globalization.
8. Building products overseas in countries like China puts our technologies at risk of being copied or stolen, which is in fact happening rapidly
9. The anti-globalists also claim that globalization is not working for the majority of the world. "During the most recent period of rapid growth in global trade and investment, 1960 to 1998, inequality worsened both internationally and within countries. The UN Development Program reports that the richest 20 percent of the world's population consume 86 percent of the world's resources while the poorest 80 percent consume just 14 percent. "
10. Some experts think that globalization is also leading to the incursion of communicable diseases. Deadly diseases like HIV/AIDS are being spread by travelers to the remotest corners of the globe.
11. Globalization has led to exploitation of labor. Prisoners and child workers are used to work in inhumane conditions. Safety standards are ignored to produce cheap goods. There is also an increase in human trafficking.
12. Social welfare schemes or "safety nets" are under great pressure in developed countries because of deficits, job losses, and other economic ramifications of globalization.

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A COMPARISON WITH OTHER DEVELOPING COUNTRIES

Consider global trade- India's share of world merchandise exports increased from 0.05 percent to 0.07 percent over the past twenty years. Over the same period China's share has tripled to almost 4 percent. India's share of global trade is similar to that of the Philippines an economy 6 times smaller according to IMF estimates. Over the past decade FDI flows into India have averaged around 0.5 percent of GDP against 5 percent for china and 5.5 percent for Brazil. FDI inflows to china now exceed US $ 50 billion annually. It is only US $ 4 billion in the case of India. Now India is in the process of restructuring her economy with aspirations of elevating herself from her present desolate position in the world. The need to speed up Indian economy is more imperative and having witnessed the positive role of the foreign direct investment has played the rapid economic growth of the most of The South Asean countries and most notably china, India has embarked on an ambitious plan to emulate the successes of her neighbors to the east and is trying to sell herself as a safe and profitable destination for foreign direct investment. Present NDA government has tried to maintain status quo very well by allowing maximum FDI in different sectors as much as it may be possible. NDA's foreign policy has been commended all over the world but consequences of initiative taken to increase FDI inflows in India are still on the waiting list.

POLICY IMPLICATIONS/SUGGESTIONS

1. In the case of agriculture, if the FDI is allowed 100 percent in multi-brand retail sector, then farmers can get remunerative prices for their crop. Farmers are getting meager prices for their produce due to many types of intermediaries between sellers (farmers) and buyers.
2. UNCTAD had underlined the large amount of losses to the exchequer of developing countries ($100 billion a year) due to the routing of FDI through tax havens therefore early implementation of GAAR (General anti avoidance rule) is required which has been delayed by present government. Policy makers need to take cognizance of the fact that it is domestic investment which has provided an overwhelmingly large share of India's capital formation should not be neglected because of foreign phobia.
3. Communal disharmony has been the issue of debate for present government. Whether India's ease of doing business rank has improved to 34 but due to violence, riots and strifes at domestic level India has lost its international reputation. Recently agitation by jats in Haryana for reservation was so horrible that shops, malls were set afire. After the withdrawal of protests when owners were advised to start their shops and malls along with financial help they refused to do so. Reason is that they are feeling insecure in such environment. Therefore, communal harmony is must to attract foreign as well as domestic investors.
4. To attract investors from different countries infrastructure, Social as well as physical should be improved. Social infrastructure includes education and health on the other hand physical infrastructure includes transportation, energy, banking services etc. A good and efficient infrastructure can play a vital role in the augmentation of globalization process.
5. The government has already set the ball rolling. It has relaxed FDI norms to encourage both domestic and foreign companies to manufacture in India sell their products abroad.

Indian population has poor skill or they don't have skills at all. The Indian employers have been struggling with acute shortage of skilled manpower despite India having the largest pool of young population in the world. Reason: Lack of required expertise for specific jobs. As per the labour bureau report 2014, the current size of India's formally skilled workforce is only 2 percent. This apart there is also challenge of employability of large sections of the conventionally educated youth. The Indian education system has been churning out brilliant minds but lacking in the skills sets required for specific jobs. Therefore, there is need for appropriate and adequate skill development and training which can convert this force into the largest source of technically skilled manpower.

CONCLUSION

Globalization is not only useless but dangerous too for Indian Economy. It gave temporary relief to Indian Government to tide over its serious foreign exchange situation during 1990- 91 by enabling it to get loan from World Bank. But, as a byproduct, it has caused some permanent damage to Indian Economic system. The expansion of capital and concentration of wealth in the hands of few is leading to expansion and growth of poverty on a large scale. The growing poverty and shrinking of purchasing power puts economies under stress. The on-going economic crisis which has lasted for a decade and is still going on is the telling proof of this observation.

Globalization has its own negative as well as positive impacts in modern era. Our policy implications have been against common man. It is the government which can reap the benefits from globalization if it prepares and implement pro-people policies to attract foreign direct investment. There is example of many developed as well as developing countries such as south ASEAN countries like china, who have yielded a lot from globalization by trading all over the world. Our policies are influenced by big corporates and elites it is proved by the increasing number of billionaires in India as per Forbes list. Even our elections are financed by corporates so it is obviously that government policies are too influenced by corporates to fulfil their own personal interests. It is the policies of china and Russia who have utilized the foreign direct investment to elevate masses above the poverty line. Such policies and attitude should be adopted by India towards globalization. Only propoor policies and workforce ready for jobs will be beneficial for government who believes the theory trickle-down effect. Hitherto that trickledown effect has not been seen by Indian people. Indians are still waiting for good days.

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