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Impact of globalization on Indian Economy

An overview

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Abstract— **Globalization is not an objective but a process or a journey towards opening up of an economy by looking towards the rest of the world and to achieve integration in a rapidly transforming global village. This article has been divided into five parts. First part deals with Industrial policies (pre-1991). Second part deals with New Economic Policy 1991. Third part is impact of globalization on Indian economy. Fourth part deals with disadvantages for Indian society. Last part deals with suggestions.**

Keywords- LPG Reforms; Open economy; Closed economy; Remittances; Crony Capitalism; Public Private Partnership;

I. GLOBALIZATION

Globalization is not an objective but a process or a journey towards opening up of an economy by looking towards the rest of the world and to achieve integration in a rapidly transforming global village.

USSR had socialistic economy and this was one of the reason that resulted in a weaker economy that finally broke the country into parts. In India, a closed economy was perhaps needed initially, but its continuation for forty years prevented us from achieving a higher GDP growth rate and possibly a reason for us to tackle external economic shocks. Thus, in 1991, we faced a severe Balance of Payment crisis.

In the initial years of development, most economies (including India before 1991) are inward-looking (closed) economies with a strong focus on domestic demand, domestic population, domestic resources and fulfilling the basic needs in an economy. These economies are characterized by high levels of insulation from the rest of the world virtually and complete cut-off from trade with imports restricted to essentials not possible to produce in the domestic economy and exports are permitted only of surplus over- domestic demand.

Such economies have a large role in the government as a direct producer of goods and services in the economy, highly regulated (remember India before 1991 reforms), focused on self-reliance and import substitution.

India started its journey of industrialization during the second five year plan (1955/56- 60/61).

The pattern of industrialization in India is also known as the 'Mahalonobis Model' (as Indians scientist) with the setting up of basic and capital goods industries by the government directly, strongly influenced by the Russian model of state run industries. One may ask 'why' public sector has chosen for industrialization. Post independence India was deeply influenced by the soviet union which had state- run industries was an era of 'socialism' with large role of the government in production of goods and services. Capitalism was associated with exploitative tendencies and having vested interest.

A. Industrial policies (pre-1991) are as follows:-

(1) The industrial sector was highly regulated bureaucratic controls and subject to strict licensing system by the government with the need for a license for any industrial activity, besides the need for compulsory registration before commencing the business.

(2) The policy of 1956 brought the emphasized the role of public sector by reserving as many as eighteen areas exclusively for the public sector. In certain areas, private sector was allowed but subject to the requirement of license & registration. However, public sector could also be set up in these areas if deemed necessary by the Government.

(3) Thus, most critical and important areas of oil, power, heavy equipments, telecom, etc., were exclusively in the domain of public sector.

(4) Bigger private companies were highly regulated through the monopolies and restrictive trade practices (MRTP) Act and known as MRTP companies and similarly foreign companies were regulated through the Foreign Exchange Regulation Act (FERA) and known as FERA companies.

(5) It was believed by the Government that as company grows in size it can resort to monopolistic and exploitative tendencies. As a result even after a license and commencing of business, the private sector had to seek approval from the government for capacity expansion diversification and other such business decisions.

(6) The earlier policies with a view to give public sector commanding heights and control over key industries/services also paved the way for nationalization or take over from private sector. Thus, coal mining, banking, insurance, textile mills (sick industries were taken over to protect employment) earlier in the private sector, were nationalized.

(7) The pre- 1991 policies had price regulation for industrial goods with prices of steel, cement and other basic goods controlled by the government.

(8) Each and every policy had stressed on the mixed economy character of the economy which is co-extensive of the public and private sector but in reality it was reality it was heavily titled towards the public sector.

(9) The pre 1991 policies were highly regulated and regimented, oriented, near dominance of the public sector and a very limited space but with bureaucratic control over private sector companies.

B. New Economic Policy 1991

This policy is known to be the beginning of economic reforms in India. Though reforms were there before this also but not seen as reforms made as explicit in the policy of 1991. It is also known as the New Industrial Policy or the New Economic Policy and also known as the policy of liberalization or end of license/permit raj or even end of bureaucratic control over functioning of the industrial sector, particularly private sector.

The policy aimed at greater freedom for doing business outside the government control, reduced the role for public sector, de-reserving areas and larger role for the private sector doing away with MRTP/FERA companies. This lifted all bureaucratic control on their functioning. Price regulation paved a way to the market determined prices for most of the industrial goods. The policy emphasized on greater competition and level playing field for all players.

It advocated liberal foreign investment policies to attract foreign investment in the country (more about this is upcoming sections). Broadly, the New Economic Policy, or the Industrial Policy 1991 has three broad areas which are as follows:-

(i) Liberalization

(ii) Private sector

(iii) Foreign investment

India's efforts at globalization in the nineties, was a part of Economic Reforms of 1991 centered around the three pillars of liberalization, privatization and globalization also known as the LPG of economic reforms. Liberalization and privatization are to achieve domestic competitiveness while globalization is to achieve global competitiveness. Their roles are complimentary reinforcing each other. It is not possible to achieve the global competitiveness unless domestic sector is competitive and efficient.

1. Open Economy:

Goods and services today are not confined to geographies but are available across the countries. Countries of origin have lost relevance with emergence of global brands and global players.

It is difficult to ascertain today that a good being purchased is of which country. Today goods and services, and their availability not identifiable by geographical boundaries but are driven by markets. For example, Sony, Apple, Hyundai, Microsoft, Tata have become global giants & MNCs today work like a nation in themselves!

The living standards of people have also undergone a change from 'hard living' to 'soft living' facilitated, enlarged choice set with greater stress on convenience and comfort. Increased demands for televisions, refrigerators, working machines, air conditioners etc. is not only because of increased income levels but also because of their continuous falling prices making them affordable. Similarly faster and cheaper communication and transportation has not only given boost to tourism and more importantly increased the 'awareness' of different economies.

Telecommunication Revolution, Information Metamorphosis, Media Transformation, Redefined Living Standards, the easy paced lifestyle has paved way to fast paced lifestyle such as fast foods, convenient goods etc. All the above factors have led to integration of the world economy from an economic perspective to what is known as a 'global village'. The above facilitators has served as an accelerator to transform of an inward looking (closed) economy to an outward-looking (open) economy which is known as the process of globalization.

A. Due to open economy:

1. *Increased National income and per capita income*- GDP has increased, purchasing power along with GDP has increased. Now India is the 3rd largest economy in Purchasing power parity terms.
2. *An integrated global economic network*- Indian economy very much connected with the rest of the world. Hence any other external cause fluctuation like the recent Brexit also cause volitality in our capital market. The world recession of 2008, has exposed that it is not possible for economies to remain as 'hermit economies' which is insulated from rest of the world in adverse times. Economies of the world including India, China and other emerging economies were also impacted by the global crisis, though to a lesser degree.

2. Capital Economy:

Capitalism is now flourishing, as the companies have a huge playing field available to them, and the keenly look forward to expanding to new markets. Economic institutions like WTO have continuously promoted the opening of new markets to the MNCs.

3. Joint Investment:

Joint investment is good for Indian economy. For example 'Maruti Suzuki' is good example of joint investment. This car is product of Japan and India. Due to joint investment Indians are employed and Foreign Direct Investment could happen. For eg POSCO is company- mining in Orissa- tribal people have been employed through this plant. But its Negative point is always profit goes outside of country.

4. Capital Market:

India now is moving towards a robust capital market, with a lot of influx of liquid funds, mostly by FIIs (Foreign Institutional Investors) through instruments of shares and bonds. This is especially helping our startups in getting initial capital for their venture. But, our capital market is not yet very stable as this 'hot money' is the most volatile component of our economy.

5. Public Private Partnership: model of development –

As the private sector is now more capable, it is now collaborating with the government in development projects. Eg. The T3 terminal is based on PPP model.

6. Increased Remittances:

More people are emigrating outside the country and remittances are coming to India, improve the quality of life. Importing capacity has increased, custom duty is less.

II. NEGATIVE IMPACT OF GLOBALIZATION

1. **Increasing Consumerism is environmentally unsustainable for India -** Purchasing power has increased while Traditional mind set is getting changed. Earlier people were in habit to reuse the things e.g. furniture, clothes etc. The developed countries like USA, Western European nations are very careful to not over exploit their own resources, and take care of their environment. On the other hand India, Brazil, Indonesia do not value for their own things. For ex we are having wooden market but no environmental liability. Indians are doing environmental damage to irrepairable extent and causing environmental degradation, polluting water, discharging waste in rivers from factories.

2. **Increasing Economic inequality –** Now rich has become richer while poor are still at the same level. But in India definition of development has become GDP centric, so rather than focusing on inclusive growth and development of all the sections of society, we have a tendency to look.

3. **Gender Issue-** Women are most affected so women are most vulnerable group. Because of use of polluted water, females face health problems like their reproductive system is affected. As a traditional course of work for water scarcity, they covers miles to bring drinkable water.

4. **Land Acquisition for industrial and mining has increased tribals displacement -** And in lieu of displacement, these people are not provided or given equally fertile land. So, Poverty and Infant mortality is high among tribal people. Due to acquisition or start up of plant or factory in that area, tribal could not join the work due to lack of training. Naxalite activities in 40% of the cases is because of land alienation issues.

5. **Black money-** It is an unaccounted income, earned through illegal channels and put to unproductive anti-national use and conspicuous consumption. Checking black money and tax evasion are the critical aspects of tax compliance. Black Money open for funding of terrorist. Earlier we had closed economy, difficult to send money and equally difficult to bring money in country. Due to open economy- it is easier for terrorists to appropriate funds. For ex- Havana- Singapore- No investigation circulate the money.

   Round tripping of Black money- Black money inflow has been increased. For eg. In some countries tax laws are so weak. Black money send for investment firm and comes back, no vigilance for company investment.

6. **Crony capitalism-** has increased and become stronger amongst businessmen- politician nexus e.g. sometimes they create fake company and channelise government funds through it into the underground economy.

7. **Consumerism-** Indian land is having 1//5 of USA. American people value land & people. Australia- standard of living has become improved. Sustainable development concept is into the Australian mind. Consumerism is link with economy and protection of development. But in India development is GDP economic centric.

LPG reforms have increased employment opportunities. In MNC's—Variety of talent gets accomodated and more, disabled people can be adjusted.

But if we talk about, in past 25 yrs, traditional handicraft and cottage industry sale and prices has become lower down. Because of low sale big loss had been towards craftsman. Now it is duty of government to promote this area and provide a permanent and original market for them. Government must have to go with good vision at national and international level treaties.(In one of the instance government entered into treaty with Brazil, with less tax. Traditional handloom Industry was included, into their treaty government never included cotton item and for cotton stuff its too much in demand).

III. SUGGESTIONS

1. Promote Make in India and Skill India to create more jobs and make ourselves self reliant.
2. To make our goods more competitive in the world markets, we need to improve our efficiency and productivity.
3. Not ape the western model of development as it is not fit for a highly populated country like India, so we should aim at a sustainable pattern of growth.

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