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Globalisation and Its Impact on Indian Economy

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Abstract

Globalisation has opened up new and tremendous opportunities for worldwide developers. To accrue the benefits of globalisation, India introduced economic policy changes and integrated its economy to the international economy since the Cold War end. It has brought far-reaching implications on India's economic, trade and investment relations with the countries of the world. India's economic achievement over the last two decades has attracted the attention of other regional and global powers for closer cooperation with India. The paper seeks to analyse the implications of globalisation to the Indian economy in the post-cold war era. It first discusses the concept of globalisation and its chief features. It also examines the performance of the Indian economy since the arrival of globalisation in India. It also highlights the measures taken by the government to improve the economy of our country.

Keywords: India, Globalisation, Economic Liberalization, International Economy.

1. Introduction

Globalisation has opened up new and tremendous opportunities for worldwide developers. Under the influence of the process of globalisation, India in 1991 introduced economic policy changes and integrated its economy to the international economy. Globalisation in India arrived just before the end of the cold war. India introduced changes in industrial and trade policies to improve its efficiency, productivity and competitiveness of its economy. Besides, it also brought changes in industrial licensing, foreign collaborations, investment by NRIs, portfolio investment by foreign institutional investment, reduction in tariff rate and simplification of export-import procedures, opening of the IT-sector, reducing public expenditure investment norms to attract inflow of capital from both the domestic and foreign enterprises in sectors like banking, insurance, retailing etc.[1]

Since then India's economic performance has witnessed paradigm shift from low growth to high growth trajectory resulting in an increase in domestic savings. Indian economy has become more open and gained competitiveness in the world economic scenario. It was able to maintain an annual average growth rate between five to seven per cent. Given the current growth rate, it is being projected that by the end of the second decades of the twenty-first century, India would become the third largest economic power behind the United States and China.

Globalisation has far-reaching implications on India's economic, trade and investment relations with the countries of the world. India's economic achievement over the last two decades has attracted the attention of other regional and global powers for closer cooperation with India. Henry Kissinger predicts that in the twenty-first century, the international system will be dominated by six major powers: the U.S., Europe, China, Japan, Russia and probably India. This is followed by the predicament of Mr. Samuel Huntington that during the coming decades, "India could move into rapid economic development and emerge as a major contender for influence in world affairs." India's Gross National Product (GNP) of $2.14 trillion in Purchasing power parity (PPP) terms is larger than that of three P-5 countries such as Russia, France and Germany. This way, in PPP terms, India's economy is more than twice that of Russia.[2]

Apart from Trade, Foreign Direct Investment (FDI) also increases from 1991 onwards. Besides, there has also been an increase in the number of foreign firms presence in our country. They are well aware of the presence of a large pool of skilled brains power and the advantage that would accrue out of it. The liberalization process has opened the excellent opportunity for the foreign firms to access Indian market and changed their mindset about the Indian economy from a poor, underdeveloped economy to an emerging market. The paper seeks to analyse the implications of globalisation to the Indian economy in the post-cold war era. It first discusses the concept of globalisation and its chief features. It also examines the performance of the Indian economy since the arrival of globalisation in India. It also highlights the measures taken by the government to improve the economy of our country.

2. Defining the Concept of Globalisation

The concept of globalisation is not a new one but gained prominence after the Cold war end. Globalisation is a deeply contested concept; therefore defining the concept of globalisation is never going to be easy. There is no such commonly accepted definition on globalisation. It means different things to different people. Many scholars and academicians from the field of social sciences have defined the concept from the different perspectives. In simple terms, Globalisation would mean integration of the world economy and the increased interdependence among the countries of the world. According to Guy Brainbant, 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 migrations and more generally increased mobility of persons, goods, capital, data and ideas but also infections, diseases and pollution.[3]

Globalisation as a concept refers to the ways in which developments in any part of the world can rapidly come to have spill-over consequences for the security and well-being of populations in other part of the globe. It involves economic integration; the transfer of policies across borders; the transmission of knowledge; cultural stability; the reproduction, relations, and discourses of power; it is a global process, a concept, a revolution, and 'an establishment of the global market free from sociopolitical control.'

Anthony McGrew's has defined "globalization as a process which generates flows and connections, not simply across nation-states and national territorial boundaries, but between global regions, continents and civilizations. This invites a definition of globalization as: 'an historical process which engenders a significant shift in the spatial reach of networks and systems of social relations to transcontinental or interregional patterns of human organization, activity and the exercise of power.'"[4] While Cerny has defined Globalization as a set of economic and political structures and processes deriving from the changing character of the goods and assets that comprise the base of the international political economy - in particular, the increasing structural differentiation of those goods and assets.[5]

In the Indian context, globalisation would mean opening up the country's economy to FDI by providing facilities to foreign companies to invest in different fields of economic activity in India; removing constraints and obstacles to the entry of MNCs in India, allowing Indian companies to enter into foreign collaborations and also encouraging them to set up joint ventures abroad; carrying out massive import liberalization programmers 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 a plethora of export incentives opting for exchange rate adjustments for promoting exports.[6]

3. India's Economy after the Dawn of Globalisation

The emergence of globalisation has a close linkage with progress in Indian economy. In a follow up to the Cold War end, India took the bold steps of implementing economic reforms that finally brings an end to license raj and opening up of private sectors. The reforms process introduced were reducing tariff and non-tariff barriers, relaxation of FDI rules, exchange rate and banking reforms. The decision to open up its economy and integrate it to the international economy would always remain the sound basis for the success behind Indian economy.

With this, trade and investment relations with other countries and foreign investment inflows started improving in a way that had never experienced before. FDI inflow to India in 1990 was just US$ 100 million, but within six years, it jumped to US$ 2.4 billion. The ratio of FDI inflows to GDP has also improved in a significant way. However, the 1997 Asian financial crisis and the Indian decision to carry out nuclear tests in May 1998 brought a temporary setback to the prospering Indian economy. The average GDP growth rate in the first decade after the liberalization of Indian economy hovers around 5.6 per cent.

By the turn of the twenty-first century, there is no way of backtracking India's economic growth that had started improving.[7] The Indian economic growth rate of 8.5 per cent each in 2004 and 2005 was quite impressive, followed by a much better growth rate of 9.4 per cent in 2006. Because of which, India has emerged as the twelfth-largest global economy when measured by the size of its GDP in market rate and the fifth-largest global economy in terms of purchasing power parity.[8] However, today, Indian economy is the fourth largest in the world behind the U.S., China and Japan. India is most likely to replace Japan in the coming few years. This is justified by the fact that the size of India's economy was 73 per cent that of Japan. However, in 2006, the figure has risen to 99 per cent.[9] India's economic performance would have been much better had there been continuous step-by-step reforms. Continuous trade and investment reforms would hold the key India's economic progress in future.

4 Consequences of Globalisation to Indian Economy

Globalisation offers both opportunities and challenges for our country in many ways. It has created significant opportunities for manufacturing, agriculture, service sectors and many others. Besides, there has been significant inflow of foreign investments in to India. The challenges of globalisation lies not in stopping the expansion of global market, but in setting rules and institutions for better governance at local, national, regional and global levels. Further, globalisation 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 globalisation works for people and not just for profits. However, this section would highlight how globalisation has its implications on India's trade and investment.

4.1 Trade Flow

Except in the last few years after the advent of global financial crisis, India's total merchandise trade increased over three-fold from US$ 252 billion in FY 2006 to US$ 794 billion in FY 2012 (for more details see table 1 as shown below). With the total increase in the volume of India's imports and exports, trade-GDP ratio had increased from 30.2 per cent in FY 2006 to 42.9 per cent in FY 2012. The share of India in global merchandise exports had increased from about 0.5 per cent in 1990 to 1.67 per cent in 2011. In terms of global ranking, India has moved up nine rung from 28th rank in 2006 to 19th rank in 2011.

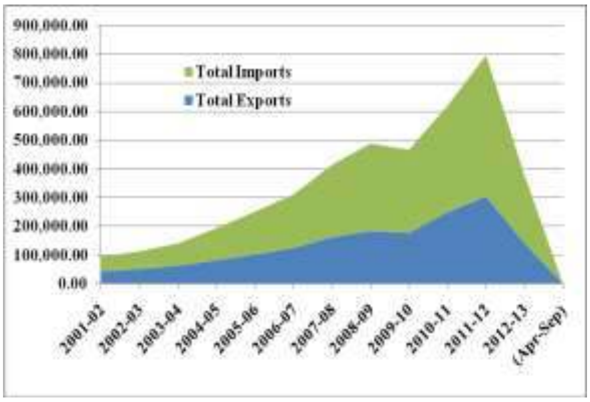
The major items of India's exports are Petroleum Products, Gems & Jewellery, Pharma Products, Transport equipments, Machinery & Instruments and Readymade garments. While the major items imports to India are Petroleum Crude, Gold & Silver, Electronic Goods, Pearls & Precious Stones, Non- electrical Machinery and Organic & Inorganic Chemicals.

The major destination of India's export has been Asia, Europe and North America. Indian exports to Asia have moved from 40.2 per cent in 2001-02 to 51.6 per cent in 2011-12. The share of Asia, Africa and Latin American countries regions increased sharply from 47 per cent in 2001-02 to 62.7 per cent in 2011-12. United Arab Emirates remain on top position in terms of best export destination, while China remains the best import destination for India.

Table 1: Volume of India's Exports and Imports from 2001-2013

Year	Total Exports	Total Imports
2001-02	43,826.72	51,413.28
2002-03	52,719.43	61,412.14
2003-04	63,842.55	78,149.11
2004-05	83,535.94	111,517.43
2005-06	103,090.53	149,165.73
2006-07	126,414.05	185,735.24
2007-08	163,132.18	251,654.01
2008-09	185,295.36	303,696.31
2009-10	178,751.43	288,372.88
2010-11	251,136.19	369,769.13
2011-12	305,963.92	489,319.49
2012-13 (Apr-Sep)	142,093.79	235,049.40

Figure 1: Volume of India's Exports and Imports from 2001-2013



Source: Export-Import Data Bank, Ministry of Commerce and Industry, Government of India, New Delhi.

It can be observed from trends in the growth of India's foreign trade that there has been a modest growth rate of exports and a large increase in imports thereby widening trade deficits. It is remarkable that during this period our balance of trade remained unfavorable. Our imports had exceeded exports, showing a huge trade deficit and this is something which our country has to be concerned about.

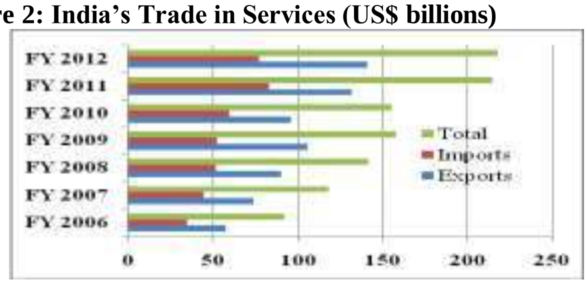
Unlike merchandise trade, in the services sector India exports more than what it imports from other countries. The total volume of trade in services sector has increased from US$ 92.2 billion in FY 2006 to US$ 217.8 billion in FY 2012, registering more than two fold increases. In the services sector the balance of trade is in favor of India. In the service sector, the software exports alone account for US$ 62.2 billion in FY 2012. The software exports have increased almost three fold from US$ 23.6 billion in FY 2006 to US$ 62.2 billion in FY 2012.[10]

Table 2: India's Trade in Services (US$ billions)

Year	Exports	Imports	Total
FY 2006	57.7	34.5	92.2
FY 2007	73.8	44.3	118.1
FY 2008	90.3	51.5	141.8
FY 2009	106.0	52.0	158.0
FY 2010	95.7	59.5	155.2
FY 2011	131.7	83.0	214.7
FY 2012	140.9	76.9	217.8

Source: Reserve Bank of India (RBI)

Figure 2: India's Trade in Services (US$ billions)



India, by virtue of its software exports has seen its share of service exports rise to 3.3 per cent in 2010. From the above table and figure, we can observe that there has been tremendous increase in India's service exports, thereby ensuring the balance of trade is in our favour.

4.2 Dual Investment Flow

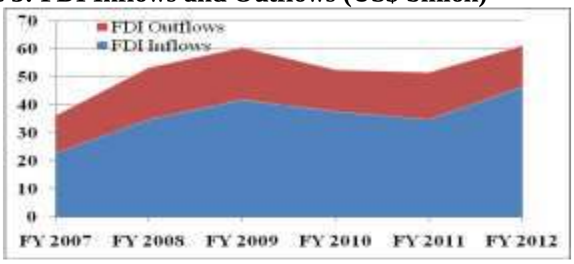
Foreign investment generally has two forms-one is the foreign direct investment and the other is foreign portfolio investment. The difference between the two lies only in the degree of influence. But the author would restrict to the first one. Since the integration of the Indian economy to the international economic regime, there witnessed a sudden upsurge in the strategic thinking of India with regard to Foreign Direct Investment (FDI). Foreign Direct Investment is considered to be the engine of growth for the host countries. India's dire need for foreign investment coalesced with the initiation of certain policy changes such as reduction of restriction and controls over the entry of foreign firms, created a climate conducive for foreign direct investment. Besides, India has signed a number of bilateral investment agreements with foreign countries including attracting investment. At the same time, Foreign Exchange Regulation Act (FERA) was amended to allow easier operation of firms in India with foreign equity. India also signed the Multilateral Investment Guarantee Agency (MIGA) convention to promote foreign investment. However, the most important factor that makes India a very hot destination for foreign investors are its market size, prevalence of domestic institutions and the enforcement of rule of law.[11]

The decision of the Indian government to increase its foreign investment equity limit from 40 to 51 per cent since July 1991 was a good move to attract more investment from other countries. Since then foreign firms has expressed keen interest in investing in India. The major areas that has benefited out of FDI inflows are power generation, telecommunication expansion and transportation modernisation,[12] chemicals, electricals, electronics, mechanical engineering and industrial machinery. FDI inflows to India have improved from US$ 22.8 billion in FY 2007 to US$ 46.6 billion in FY 2012. Indian outward investment has witnessed a slight increase from US$ 13.3 billion in 2007 to US$14.6 billion in 2012, with the highest one being registered in 2009 (US$ 18.6 billion).

Table 3: FDI Inflows and Outflows (US$ billion)

Year	FDI Inflows	FDI Outflows
FY 2007	22.8	13.3
FY 2008	34.8	18.5
FY 2009	41.9	18.6
FY 2010	37.7	14.8
FY 2011	34.8	16.8
FY 2012	46.6	14.6

Figure 3: FDI Inflows and Outflows (US$ billion)



Source: Reserve Bank of India **Note:** FDI outflows include equity, loan and guarantee issue.

The major sectors of Indian FDI outward in FY 2012 are manufacturing sector; financial, insurance, real estate and business services; transport, storage and communication services; construction and others. Among these sectors, manufacturing sector along account for 32 per cent of Indian investment outward. In terms of countries, Mauritius was the largest destination of Indian Outward Direct Investment in 2012, followed by Singapore, Australia, Netherlands, Panama, UK and USA.

India's Overseas Investment has witnessed significant improvement since 1996 when India had made policy changes in its overseas investment. The value of approved Indian Investment abroad has increased by more than five-fold to US$ 2854.84 million between April 1996 and March 2006. Indian investment abroad has resulted in creation of significant jobs for other countries. Indian corporations are investing all over the world and even in some industrialized countries. Indian corporates/Registered partnership firms are allowed to invest in entities abroad up to 400 per cent of their net worth and are permitted to make overseas investments in any bonafide business activity.

4. Indian Economy Post Global Financial Crisis

Like all other emerging economies, Indian economy too had smelled the impact of the global financial crisis but unlike other countries it has shown considerable resilience. India's GDP has come down more than what was expected earlier, reflecting lower industrial production, negative imports, deceleration in services activities, dented corporate margins and diminished business confidence. The impact of economic slowdown to Indian economy is very clear from the fact that the GDP growth has come down to 7.8 per cent during April-September 2008 from 9.3 per cent in the same period of 2007. However, the domestic demand continues to remain strong reflecting good sign for quick recovery. But at the same time it will essentially be contingent upon the return to normalcy of global economic and credit conditions. The table below presents the impact of global economic crisis on the growth rate of Gross Domestic Product (GDP) in various sectors of Indian economy. It can be observed that the areas mostly affected by the financial crisis are agriculture, mining, manufacturing and trade. The only sectors which continue to sustain are community, personal and social services.

Table 4: Growth Rate of GDP (Sector Wise) In India

	Pre Financial Crisis		**Post Financial Crisis**	
Sectors	**2006-07**	**2007-08**	**2008-09**	**2009-10**
Agriculture, Forestry and Fishing	3.7	4.7	1.6	-0.2
Mining and Quarrying	8.7	3.9	1.6	8.7
Manufacturing	14.9	10.3	3.2	8.9
Electricity, Gas and Water Supply	8.5	10.0	3.9	8.2
Trade, Hotels and Restaurants	11.2	9.5	5.3	8.3
Construction	10.6	10.0	5.9	6.5
Transport, Storage and Communications	12.6	13.0	11.6	NA
Finance, Insurance and Real Estate & Business Services	14.5	13.2	10.1	9.9
Community, Personal and Social Services	2.6	6.7	13.9	8.2
Total GDP from all Sectors	9.7	9.2	6.7	7.2

Source: Suraj Walia, "Impact of Global Economic Crisis on Indian Economy: An Analysis", International Journal of Latest Trends in Engineering and Technology, vol. 1(2), July 2012, p. 33.

The International monetary fund (IMF) has projected that unlike in the past five years, both India and China will witness a low GDP growth rate of 5.1 and 6.7 per cent respectively in the year 2009. The impact of the global financial crisis can also be seen from receding India's trade relations with other economically powerful countries.[13]

However, a different projection has been given by different economic institute on India's GDP in the year following the financial crisis. The International Monetary Fund (IMF) has estimated that the Indian economy will grow by 5.1 per cent in 2009-10, while the World Bank has projected to grow by 4 per cent. However the ADB had estimated that the country's GDP expansion rate at 5 per cent.

Nevertheless, India's Chief economic adviser Arvind Virmani has said that the growth rate of Indian economy would be higher than what the three institutes has projected. He is of the view that the growth rate would be between 5.5 per cent and 7.5 per cent depending on when the U.S. economy bottoms out. He linked India's growth rate to the recovery of the U.S. from the current financial crisis. He told the reporters that if in case the U.S. economy bottoms out by September then the Indian economy would grow in the range of 6.5 per cent to 7 per cent. Otherwise, it would grow in the range between 5.5 per cent and 6.5 per cent.[14] When compared to other countries, India still stands out as one of the best performing economies.

5. Measures taken to Improve Indian Economy

In recent times, keeping in mind the challenges facing our country and in a bid to recuperate our economy, the Government responded by providing three focused fiscal stimulus packages in the form of tax relief to boost demand and increased expenditure on public projects to create employment and public assets. The Reserve Bank of India (RBI) took a number of monetary easing and liquidity enhancing measures to facilitate flow of funds from the financial system to meet the needs of productive sectors.[15] Besides, other steps are also taken such as:

a. Hike in Diesel prices.
b. Limit on LPG subsidization.
c. Opening up several other areas for investment. This includes – FDI in single-brand retail, multi-brand retail, broadcasting, aviation and pension and insurance.
d. Amendments to Companies Bill, 2011 so as to have modern legislation for growth and regulation of corporate sector in the country.
e. Reduction on withholding Tax.[16]

6. Conclusion

Globalisation seeks to achieve economic efficiency through competitiveness, while seeking the broader objectives of economic and social development. The process of globalisation has brought significant success for our country's economy- increase in GDP growth rate; strengthen the volume of exports and imports, huge flow of investment and many others. Rather than economic stagnation, globalisation has shown the way to high economic growth rate for our country. India’s rank in per capita GDP showed an improvement from 117 in 1990 to 94 in 2009. Globalisation has helped improve India’s standing thereby making it an important player in the global economy.

However, what has been achieved so far is not up to the potential, reflecting huge scope for improvement in the coming decades or so. India’s overall exports (including both goods and services) to GDP ratio had increased from 6.2 per cent in 1990 to 21.5 per cent in 2010 but account for just 1.5 per cent of the world exports.[17] Globalisation alone will not bring success for the country’s economy unless necessary measures are taken in time. The government needs to take up appropriate measures to capture that significant opportunities lay down by globalisation. The government has to introduce a number of measures for reducing trade deficit. At first, we need to control imports on the one hand and to promote exports on the other. This would require Indian exports to acquire a high degree of competitiveness in the world markets. This way we can ensure that the Indian economy move towards a higher growth path, for it to be able to catch up with other countries such as China and other Asian countries. The challenge ahead of our country is the quick recovery from the existing crisis and ensures sustainability of the high growth of our economy. Despite of the fact that the performance of Indian economy during the last few years has come down, it is still being considered as one of the fastest growing economy. Indian effort would be sustaining the growth momentum and achieving an annual average growth of 9 plus per cent in the coming years. From our side, we need to simplify procedures, reduce trade constraints and barriers and create investor friendly laws and open more areas for investment.

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