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Globalisation and its Impact on Indian Economy

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Abstract:

Globalisation refers to the process of integration of the world into one huge market. It refers to uninterrupted flow of trade, capital technology, services and Goods across the international frontiers. The present study discusses various pros and cons of globalisation, along with the opportunities and challenges that may occur as a result of globalisation. It further intends to assess the impact of globalisation on Indian economy.The study concludes that the modernization that we see around us in our daily life is a contribution of Globalization. Globalization has both positive and as well as negative impacts on various sectors of Indian Economy. So, Globalization has taken us a long way from 1991, which has resultant in the advancement of our country.

Keywords: Globalisation, Economy, Opportunities, Challenges and Growth

I. INTRODUCTION:

In simple economic terms, Globalisation refers to the process of integration of the world into one huge market. It refers to uninterrupted flow of trade, capital technology, services and Goods across the international frontiers.

IMF defined Globalisation as:

"Globalisation is the growing economic interdependence of countries worldwide through increasing volume and variety of cross border transactions in goods and services and of international capital flows and also through the more rapid and widespread diffusion of technology."

Globalisation may be considered at two levels:

1. at the macro level (i.e., globalization of the world economy)
2. at the micro level (i.e., globalization of business and the firm)

1. Globalisation of World Economy:

In this sense, globalization is the process of development of the world into a single integrated economic unit of a global or transnational economy.Transnational or global economy is different from the international economy. International economy is characterized by the existence of different national economies and the economic relations between them being regulated by the national Governments (using trade barriers, tariffs, import duties etc.)

But a global economy is a borderless world economy characterized by free flow of trade and factors of production across national borders.

It is based on the following five factors of change:

Five Parameters:

(i) International Trade (lower trade barriers and more competition.)

(ii) Financial flows (foreign direct investment, technology transfers/licensing, debts etc.)

(iii) Communications (traditional media and internet)

(iv) Technological advances in transportation, electronics, bioengineering and related fields.

(v) Population mobility, especially of labour.

2. Globalisation of Business (or the Firm):

A company or firm which has gone global is called a Multinational Company (MNC) and Transnational Company (TNC) and it refers to a company which commits itself with several manufacturing locations around the world and offers products in several diversified industries and markets.

A global corporation or MNC views the entire world as a single market and does not differentiate between domestic and foreign markets.Its management is recruited from many countries and is trained in worldwide operations, its component and raw materials are purchased where they can be obtained at the least cost and the investments are made where the anticipated returns are the greatest. For e.g., Nestle International is an example of an organization that has become multinational.It sells its products in most countries and manufactures in many. Also, its managers and shareholders are from many nations. Some other examples include Sony, Philips, IBM, Mc Donald, Ford, etc.

In the process of becoming a global corporation, corporation goes through five steps of Globalisation. These are as follows:

(i) A domestic company working successfully at local or national level moves into new markets overseas by linking up with local dealers and distributors.

(ii) In stage two, the company takes over these activities on its own, and starts exporting on its own.

(iii) In the next stage, the domestic based economy begins to carry out its own manufacturing marketing and sales in the key foreign markets.

(iv) In stage four, the company moves to a full insider position in these markets, supported by a complete business system including R & D and engineering. In this stage, different local operations are linked, their relation to each other established by their relation to the centre or headquarters in the country of origin.

(v) In the fifth stage, the company moves towards a genuinely global mode of operations. In this stage, the company must denationalize its operations and take a step towards 'global localisation' i.e., to serve local.

Causes or Factors leading to Globalisation:

Why firms go global? What motivates firms to go international?

These causes or factorsare outlined as under:

(1) Profit advantage:

International business could be very profitable, sometimes even more than the domestic business.International business enables the firm to achieve optimum capacity utilization and economies of scale and so it increases total profit of the firm.

(2) Growth opportunities:

Enormous growth potential of many countries is a strong attraction for foreign companies. In developing countries like China, India etc., both the population and income are growing fast and there is great future potential, which is vested in globalisation.

(3) Domestic Market Constraints:

Several domestic markets in advanced countries have saturated and for taking advantage of economies of scale, the firms have to go global.

(4) Competition:

Earlier, producers in India were protected from competition from outside (through trade barriers) and from within the country.(through industrial licensing, MRTP Act etc.)

But after liberalization since 1991, increased competition has forced the companies to go international. India has become a member of WTO and can't impose trade barriers on foreign MNCs.

(5) Government Policies and Regulations:

Shortage of foreign exchange in country like India became a big reason for adoption of globalisation as a strategic tool. Government has given many incentives and support to domestic industries for the promotion of export of goods and services.

(6) Strategic Vision:

Becoming an international firm, is a part of strategy of the company. The need to become competitive, the urge to grow and the need to diversify make the company go global and such a company considers the entire world as a single market.Customers as per their needs respond to global character of the industry.

Conditions Required for the Promotion of Globalisation:

There are some essential conditions to be satisfied on the part of domestic economy as well as the firm for successful globalisation of the business. They are as under:

i. Business Freedom:

There should not be unnecessary government restrictions (in the form of import restriction, restriction on sources of finance, foreign investments etc.) as these hinder globalization.

ii. Facilities:

Infrastructural facilities play a decisive role in the extent to which an enterprise can develop globally from home country. Availability of world class infrastructure facilities in a country facilitates globalization. Global markets are always quality and cost conscious.World class infrastructure facilities play an important role in quality manufacturing at minimum cost.

iii.Government support:

Government support encourages globalization as well. Government support can bein the form of policy and procedural reforms, development of infrastructural facilities, R&D support, financial market reforms, etc.

iv. Resources:

Resources of a company,such as finance, technology, managerial expertise, brand image, human resource, R & D capabilities etc. decide the ability of a firm to globalize.

v. Competitiveness:

Another important factor of success in global business is the competitive advantage of the company. It may be in the form of low costs and price, product quality, product differentiation, technological superiority, after sales service, marketing strength etc.

vi. Orientation:

A global orientation on the part of the company and suitable globalization strategy is essential for globalization.

Strategies forMaking Entry inForeign Market:

The mode of entering the foreign market is one of the most important strategic decisions in globalization of a company. There are various alternatives available, which are as follows:

i. Exporting:

This is the simplest way of entering foreign markets. The company may utilize its excess production capacity for exporting the products.

ii. Licensing:

In this, one company, called as licensor, grants a license to a company of another country,called as licensee. The license agreement may provide for free flow of technical information, specific patent rights, use of licensor's trade name, providing machinery or industrial supplies to the licensee, etc. In return the licensee is required to pay a royalty to the licensor at a specific percentage on the turnover.

iii. Franchising:

This is a form of licensing in which the franchiser provides the franchisee with a standard package of products as well as marketing and management systems that have proved successful in the home country.

iv. Contract Manufacturing:

It is an alternative to licensing. A company contracts with a foreign company/producer to manufacture products for sale in the foreign market.But the company retains responsibility for promoting and distributing its product.

v. Management Contract:

In this, a company contracts with a foreign corporation or government to manage an entire project or undertaking for a specific time. The local personnel are trained in the process who eventually take over the management responsibilities for e.g., Tata Tea has contracts to manage a number of plantations in Sri Lanka.

vi. Trunkey Contract:

Here the company contracts with a foreign entity to design and build an entire operation and on completion, the operation is turned over to the local personnel, who have been trained by the company.

These are common in the supply, erection and commissioning of plants, oil refineries, steel mills, chemical and fertilizer plants, etc.

For e.g., Tata consulting Engineers, India are specialization executing turnkey projects in Kuwait, Iraq etc.

(vii) Joint Ventures:

It means joining up with foreign companies to produce or market the products or services. For e.g., Modi-Xerox, HCL-HP, Wipro –GE.

(viii) Direct Investment:

The biggest involvement in a foreign market comes through direct investment-developing, manufacturing or assembling facilities in foreign countries.

It may be in the form of direct business investment through establishing branches, subsidiaries etc. or portfolio investment, i.e., investment made by foreign institutional investors, individuals and non-resident citizens in host countries' stock markets.

For e.g. MNCs like Kelloggs, Coco-Cola, Philips, Pizza Hut, Levis etc. make direct investment through full equity, ownership outlets in India.

II. PURPOSE OF THE STUDY:

The present study aims to discuss various pros and cons of globalization in India, along with the opportunities and challenges that may occur as a result of adopting globalisation. It further intends to assess the impact of globalisation on Indian economy.

III. REVIEW OF LITERATURE:

Samimi and Jenatabadi (2014) have investigated in their research titled "Globalization and Economic Growth: Empirical Evidence on the Role of Complementarities" the effect of economic globalization on economic growth in Organisation of Islamic Cooperation (OIC) countries. The study investigated whether the growth effect of globalization depends on the income level of countries. The studyanalysed that globalization has statistically significant impact on economic growth in OIC countries. The results indicate that this positive effect is increased in the countries with better-educated workers and well-developed financial systems. The findings of the study show that the effect of economic globalization also depends on the country's level of income.

Agrawal (2014) in her research entitled “Globalisation and its Effect on India” has found that India’s economic growth has received a strong impetus in post 1991 era. Flowing with globalization, India is shining in nearly every perspective. GDP growth has helped to improve India’s global position. The research analysed that globalization has shown positive results in economic term. Globalization has also effected India’s international trade positively but even than India’s share in international trade is very low. India is getting a global recognition and slowly moving towards becoming a major economic and political strength. India needs to launch a ‘second generation’ of economic reforms and the reforms must be based on the long-term vision of transforming India into a global economic power in the next twenty to twenty-five years.

Dave and Dave (2013) in their study entitled “Globalization and its Impact on Indian Economy” had opined that globalisation has come up with both benefits and losses. The study analysed that the increasing importance of globalization cannot be underestimated or ignored. The authors stated that the globalisation is the need of the hour. Only countries which have effective social practices can in a true sense, reap the payback of globalisation.

Singla and Singh (2012) in their research entitled “Impact of Globalisation: The Indian Experience”, have analysed that during the post globalisation period, India has improved the growth of its total GDP, per capita GDP, saving rate, investment, service sector, service trade, balance of payment and foreign investment regime. But, globalisation did not prove beneficiary for the improvement in India's agricultural and industrial sectors. Hence, it can be said that whatever the growth has been attained by the Indian economy during the post globalisation period, it seems to be a very little success if compared with other developing countries like China. Thus, the lesson of recent experience of globalisation is that India must carefully choose a combination of policies that best enables it to take the opportunity - while avoiding the pitfalls.

Adhikari (2010) in his study entitled “Globalization and Development in India – An Overview”had stated that globalization provides an opportunity to raise incomes through increased specializationand trade. But this opportunity is conditioned by the size of the markets in question, which in turn dependson geography, transportation costs, communication networks, and the institutions that support markets. There should be a general consensus that completely free unregulated capitalist growth is not likely to address poverty, unemployment, etc. and that some deliberate measures are to be adopted by governments. The state intervention is absolutely necessary in the developmental strategies of LDCs like India. More specifically, the development of less developed regions like India cannot be left entirely on market forces.

IV. PROS OF GLOBALISATION:

The following are the various benefits of globalisation:

1. Helpful in earning more profits through export:

When business is globalized, it enhances the opportunity of bringing foreign exchange to the home country. There are more chances of high turnover when goods and services are sold internationally, there is a possibility of earning good amount of profits.

2. It leads to more demand and growth opportunities:

India is a big country having a huge population. When there is a free flow of men, machine, money and technology between the boundaries of the country, it may bring growth opportunities for highly populated country, like India. Our manpower can easily visit other countries and learn their culture. Finally, their earning can be repatriated to India.

3. Increase in FDI and FII:

Globalisation brings Foreign Direct Investment (FDI) and Foreign Institutional Investment (FII) in India, as its population is large. There is an ample opportunity for foreign investors to earn money while making investment in India, which brings foreign exchange, which improves country's foreign exchange reserves.

4. Improvement in Technology:

When inflow and outflow of technology is free, then an underdeveloped country like India, may get advantage of foreign improved technology. It brings competitiveness among indigenous industry. They try to become competitor of the foreign MNCs. Scorpio of Mahindra is an example that gave competition to foreign cars.

5. Creation of local job & career opportunities in host country:

When foreign direct investment is made in India due to globalization of economy, it gives boost to employment opportunities for local people of India. When foreign MNCs will open their outlets in India, services of Indian residents will be hired and employment opportunities would be better.

6. Improved competition in the local economy:

Entry of foreign MNCs brings competitiveness among Indian industries. There may be two possibilities, either Indian industries may accept challenge or they can be wiped out by big giants. It is noticed in context with Indian economy that many Indian companies are giving a good challenge to foreign MNCs.

7. Wide variety of products and services for local consumers:

Globalisation of economy gives opportunity to MNCs to spread the business across the world. Consumers are benefitted as they get ample varieties of products and services of companies having international fame. They can choose the quality products according to the capacity to pay and their requirement.

8. Opportunity for high quality managerial talent:

When foreign MNCs enter a country, they have their products, money and technology, but they take the human resource from the host country. Such MNCs always search for high quality managerial talent among human resource. They pay good package to high quality managers. It brings an opportunity for managerial talent.

9. Encouragement to political and economic integration internationally– When there are no barriers for doing business at international level, it leads to a situation where there are political and economic integration among those countries, who are going global for doing business. They may have to sit together for talks and removing obstacles.

10.Good quality of raw materials at a cheaper price

We are all aware that no country in the world is self dependent. They have to rely on one another. Globalisation removes the problem to some extent. What a country is in excess can be exported and from that money they can buy what they are having less in quantity. Globalisation helps all for buying good quality of raw material from abroad as well, which improves quality of finished goods.

11. Inflow of various income and foreign exchange from overseas

Home country benefits by inflow of income from overseas profits, royalties, license fees, and management contracts. India IT experts are famous in world. They provide their services internationally and brings their earnings in the form of foreign exchange to India.

V. CONS OF GLOBALISATION:

The following are the various disadvantages of Globalisation:

1. Manipulation by foreign MNCs

India is a big country having second highest population in the world. India is a big attraction for foreign MNCs to enter and earn money. They manipulate the business to earn profit. The host country may experience loss of control over its economy as a result of manipulation by MNCs.

2. Foreign companies do not contribute in infrastructure development

MNCs do not invest in developing infrastructure or core sector of the host country, rather they invest in consumer goods like colas, clothes, corn flakes etc. Though it can not be denied that they pay taxes which gives boost to economy.

3.Exploitation of Labour of host nation MNCs may exploit the labour of host nations. Their main aim is to earn profit. In India there is abundance of labour. People are ready to work for less amount and for long hours. Labour is exploited by big giaints.If they pay more they ask for more work.If higher wages are paid by MNCs, the local companies also have to match those pay scales which may result in increasing costs for them as well.

4. Deterioration in culture and moral values MNCs are from developed countries, where the work culture is different from India. MNCs usher in their own dress and food habits which deteriorate the culture of the host nation.

5.Threat for local industries producing traditional and indigenous products Replacement of traditional and indigenous products by modern products due to globalized economy results in the ruining of traditional crafts and indigenous industries in host nations.

VI. OPPORTUNITIES ARISING OUT OF GLOBALISATION:

The following are some of the potential opportunities that may arise out of privatisation:

1. Human Resources:

India has one of the largest pool of scientific, technical and managerial manpower. Availability of labour at low rates is an attraction for several industries.

2. Wide Industrial Base:

India has a very broad resources and industrial base.It can be explored by making tie ups with MNCs.

3. Growing Entrepreneurship:

There is a considerable growth of new and dynamic entrepreneurs in India, who will contribute to global business. Majority of population of India is counted as young , who are desperate to work hard for economic activities. Entrepreneurship is also growing in India.

4. Growing Domestic Market:

The growing domestic market makes it possible for companies to gain strength and then enter the global market.

5. Niche Markets:

Several small Indian companies aim for niche markets. It means a small segment of a market ignored or not properly served by large players. Such companies have been quite successful in tapping this area.

6. Expanding Markets:

The growing population and disposable income and expanding market provides great opportunities for going Global.

7. NRIs:

NRIs who are resourceful in terms of capital, skill, experience, exposure, ideas etc. can contribute to globalization of Indian business.

8. Economic liberalization:

Indian Government has adopted liberalization, globalization and privitisation as a remedy to resolve issues relating to economic development. It has raised may steps to implement the economic policies. Delicensing, import liberalization, liberalization of policy towards foreign capital and technology etc. will encourage globalization.

9.Competition:

The growing competition in and outside India will also provide Indian companies to look to foreign markets seriously.

VII. CHALLENGES FACED DUE TO GLOBALISATION:

The following are some of the potential challenges that may arise due to globalisation:

1. **Govt. Policy and procedures:**

Govt. policy is very complex and confusing and the bureaucratic culture in India is not very encouraging.it can not be denied that gradually things are getting better.

2. **High cost:**

High costs of various raw materials and intermediaries reduce the international competitiveness of Indian business.

3. **Poor Infrastructure:**

The availability of inadequate and inefficient infrastructure is a serious problem that may serve as an obstacle to adopt globalization in India.

4. **Obsolescence:**

The technology employed, style of operations etc. is generally obsolete. India needs to adopt new developed technology.

5. **Resistance to Change:**

Various socio-political factors which resist change such as fear of unemployment. come in the way of modernization.

6. **Poor quality Image:**

There is an international image of India that the quality of products made in India is poor, which needs to be improved. The quality of products may be good but the poor-quality image becomes a hurdle for us.

7. **Small Size:**

Indian companies are not able to compete with giants of other countries due to their small size. Many are accepting challenge and many are shutting down.

9. Lack of Experience:

Lack of experience in managing international business is also a problem that may be a challenge in adoption of globalisation.

10. Limited R&D and Marketing Research:

Indian Companies do not spend much on Research and Development (R&D) which is a vital input for development.

11. Growing Competition:

Growing competition from developed as well as developing countries is a serious challenge for us.

12. Trade Barriers:

Non-tariff barriers have been increasing and the trading blocs like NAFTA,EU etc. also adversely affect India's business.

VIII. CONCLUSION:

Globalisation in India was initiated by Dr. Manmohan Singh, the finance minister in the 1990s, when globalization was fully implemented and experienced in India. He was the front man who framed the economic liberalization proposal. Since then, the nation has gradually moved ahead to become one of the supreme economic leaders in the world.

Developed countries have been trying to pursue developing countries to liberalize the trade and allow more flexibility in business policies to provide equal opportunities to multinational firms in their domestic market. **International Monetary Fund (IMF)** and **World Bank** helped them in this endeavour. Liberalization began to hold its foot on barren lands of developing countries like India by means of reduction in excise duties on electronic goods in a fixed time frame.

Indian government did the same and liberalized the trade and investment due to the pressure from World Trade Organization. Import duties were cut down phase-wise to allow MNC's operate in India on equality basis. As a result, globalization has brought to India new technologies, new products and also the economic opportunities.

Despite bureaucracy, lack of infrastructure, and an ambiguous policy framework that adversely impact MNCs operating in India, MNCs are looking at India in a big way, and are making huge investments to set up R&D centers in the country. India has made a lead over other growing economies for IT, business processing, and R&D investments. There have been both positive and negative impacts of globalization on social and cultural values in India.

The lesson of recent experience is that a country must carefully choose a combination of policies that best enables it to take the opportunity - while avoiding the pitfalls. To conclude we can say that the modernization, we see around us in our daily life, is a contribution of Globalization. Globalization has both positive and as well as negative impacts on various sectors of Indian Economy. So, Globalization has taken us a long way from 1991, which has resultant in the advancement of our country.

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