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Impact of Globalization on Indian Economy: Developments and Challenges

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Abstract:-

Indian economy had experienced major policy changes in early 1990s. The new economic reform, popularly known as, Liberalization, Privatization and Globalization (LPG model) aimed at making the Indian economy as fastest growing economy and globally competitive. The series of reforms undertaken with respect to industrial sector, trade as well as financial sector aimed at making the economy more efficient. With the onset of reforms to liberalize the Indian economy in July of 1991, a new chapter has dawned for India and her billion plus population. This period of economic transition has had a tremendous impact on the overall economic development of almost all major sectors of the economy, and its effects over the last decade can hardly be overlooked. Besides, it also marks the advent of the real integration of the Indian economy into the global economy.

Key Words: -Liberalization, Privatization, Globalization, economic development.

❖ Introduction :-

This era of reforms has also ushered in a remarkable change in the Indian mindset, as it deviates from the traditional values held since Independence in 1947, such as self reliance and socialistic policies of economic development, which mainly due to the inward looking restrictive form of governance, resulted in the isolation, overall backwardness and inefficiency of the economy, amongst a host of other problems. This, despite the fact that India has always had the potential to be on the fast track to prosperity.

Now that 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 her economic development is even more imperative. And having witnessed the positive role that Foreign Direct Investment (FDI) has played in the rapid economic growth of most of the Southeast Asian 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 FDI.

What is Globalization?

"Globalization is an elimination of barriers to trade, communication, and cultural exchange. The theory behind globalization is that worldwide openness will promote the inherent wealth of all nations."

Objectives of the Study:-

The present paper has been prepared keeping in mind the following objectives.

1) To understand the impact of globalization on Indian Economy.

2) To study the future challenges of globalization to Indian Economy.

Research Methodology:-

All the data for present study should have collected from the secondary source of data collection, like as annual economic survey of India, various government reports, and other published or unpublished data.

Impact of Globalization on Indian Economy: -Globalization (or globalization) describes a process by which regional economies, societies, and cultures have become integrated through a global network of communication, transportation, and trade." Globalization generally means integrating economy of our nation with the world economy. The economic changes initiated have had a dramatic effect on the overall growth of the economy. It also heralded the integration of the Indian economy into the global economy. The Indian economy was in major crisis in 1991 when foreign currency reserves went down to $1 billion. Globalization had its impact on various sectors including Agricultural, Industrial, Financial, Health sector and many others. It was only after the LPG policy i.e. Liberalization, Privatization and Globalization launched by the then Finance Minister Man Mohan Singh that India saw its development in various sectors.

Advent of New Economic Policy -

After suffering a huge financial and economic crisis Dr. Man Mohan Singh brought a new policy which is known as Liberalization, Privatization and Globalization Policy (LPG Policy) also known as New Economic Policy,1991 as it was a measure to come out of the crisis that was going on at that time. The following measures were taken to liberalize and globalize the economy,

1. Devaluation: To solve the balance of payment problem Indian currency were devaluated by 18 to 19%.
2. Disinvestment: To make the LPG model smooth many of the public sectors were sold to the private sector.
3. Allowing Foreign Direct Investment (FDI): FDI was allowed in a wide range of sectors such as Insurance (26%), defense industries (26%) etc.
4. NRI Scheme: The facilities which were available to foreign investors were also given to NRI's.

The New Economic Policy (NEP-1991) introduced changes in the areas of trade policies, monetary & financial policies, fiscal & budgetary policies, and pricing & institutional reforms. The salient features of NEP-1991 are (i) liberalization (internal and external), (ii) extending privatization, (iii) redirecting scarce Public Sector Resources to Areas where the private sector is unlikely to enter, (iv) globalization of economy, and (v) market friendly state.

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Impact of Globalization on Agricultural Sector:

Agricultural Sector is the mainstay of the rural Indian economy around which socio-economic privileges and deprivations revolve and any change in its structure is likely to have a corresponding impact on the existing pattern of Social equity. The liberalization of India's economy was adopted by India in 1991. Facing a severe economic crisis, India approached the IMF for a loan, and the IMF granted what is called a 'structural adjustment' loan, which is a loan with certain conditions attached which relate to a structural change in the economy. Essentially, the reforms sought to gradually phase out government control of the market (liberalization),

• Raising living standards,
• Alleviating poverty,
• Assuring food security,
• Generating buoyant market for expansion of industry and services, and
• Making substantial contribution to the national economic growth.

Impact of Globalization on Industrial Sector:

Effects of Globalization on Indian Industry started when the government opened the country's markets to foreign investments in the early 1990s. Globalization of the Indian Industry took place in its various sectors such as steel, pharmaceutical, petroleum, chemical, textile, cement, retail, and BPO.

Globalization means the dismantling of trade barriers between nations and the integration of the nations' economies through financial flow, trade in goods and services, and corporate investments between nations. Globalization has increased across the world in recent years due to the fast progress that has been made in the field of technology especially in communications and transport. The government of India made changes in its economic policy in 1991 by which it allowed direct foreign investments in the country. The benefits of the effects of globalization in the Indian Industry are that many foreign companies set up industries in India, especially in the pharmaceutical, BPO, petroleum, manufacturing, and chemical sectors and this helped to provide employment to many people in the country. This helped reduce the level of unemployment and poverty in the country. Also the benefit of the Effects of Globalization on Indian Industry are that the foreign companies brought in highly advanced technology with them and this helped to make the Indian Industry more technologically advanced.

Impact on Financial Sector:

Reforms of the financial sector constitute the most important component of India's programme towards economic liberalization. The recent economic liberalization measures have opened the door to foreign competitors to enter into our domestic market. Innovation has become a must for survival. Financial intermediaries have come out of their traditional approach and they are ready to assume more credit risks. As a consequence, many innovations have taken place in the global financial sectors which have its own impact on the domestic sector also. Growth in financial services (comprising banking, insurance, real estate and business services), after dipping to 5.6% in 2003-04 bounced back to 8.7% in 2004-05 and 10.9% in 2005-06. The momentum has been maintained with a growth of 11.1% in 2006-07. Because of Globalization, the financial services industry is in a period of transition. Market shifts, competition, and technological developments are ushering in unprecedented changes in the global financial services industry.

Impact on Export and Import:

India's Export and Import in the year 2001-02 was to the extent of 32,572 and 38,362 million respectively. Many Indian companies have started becoming respectable players in the International scene. Agriculture exports account for about 13 to 18% of total annual of annual export of the country. In 2000-01 Agricultural products valued at more than US $ 6million were exported from the country 23% of which was contributed by the marine products alone. Marine products in recent years have emerged as the single largest contributor to the total agricultural export from the country accounting for over one fifth of the total agricultural exports. Cereals (mostly basmati rice and non-basmati rice), oil seeds, tea and coffee are the other prominent products each of which accounts for nearly 5 to 10% of the country's total agricultural exports.

Advantages of Globalization:

• There is an International market for companies and for consumers there is a wider range of products to choose from.
• Increase in flow of investments from developed countries to developing countries, which can be used for economic reconstruction.
• Technological development has resulted in reverse brain drain in developing countries.

Demerits of Globalization (Challenges):

• The outsourcing of jobs to developing countries has resulted in loss of jobs in developed countries.
• There is a greater threat of spread of communicable diseases.
• There is an underlying threat of multinational corporations with immense power ruling the globe.
• For smaller developing nations at the receiving end, it could indirectly lead to a subtle form of colonization.
· The number of rural landless families increased from 35 %in 1987 to 45 % in 1999, further to 55% in 2005. The farmers are destined to die of starvation or suicide.

A Comparison with Other Developing Countries:

Consider global trade – India's share of world merchandise exports increased from .05% to .07% over the past 20 years. Over the same period China's share has tripled to almost 4%.
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% of GDP against 5% for China and 5.5% for Brazil. FDI inflows to China now exceed US $ 50 billion annually. It is only US $ 4billion in the case of India.

Indian Economy Future Challenges:-

1. The government should reduce its budget deficit through proper pricing mechanisms and better direction of subsidies. It should develop infrastructure with what Finance Minister P

Chidambaram International Research Journal of Finance and Economics- Issue 5 (2006) 171 of India called "ruthless efficiency" and reduce bureaucracy by streamlining government procedures to make them more transparent and effective.

2. Simplifying procedures and relaxing entry barriers for business activities and providing investor friendly laws and tax system.

3. Checking the growth of population, India is the second highest populated country in the world after china. However in terms of density India exceeds China as India's land area is almost half of China's total land due to high population growth, GNI per capita remains very poor. It was only $ 2880 in 2003 World Bank figures.

4. Developing world-class infrastructure for sustaining growth in all the sectors of the economy

5. Effecting fiscal consolidation and eliminating the revenue deficit through revenue enhancement and expenditure management.

Conclusion :-

India gained highly from the LPG model as its GDP increased to 9.7% in 2007-2008. In respect of market capitalization, India ranks fourth in the world. But even after globalization, condition of agriculture has not improved. The share of agriculture in the GDP is only 17%. The number of landless families has increased and farmers are still committing suicide. 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. For over a century the United States has been the largest economy in the world but major developments have taken place in the world Economy since then, leading to the shift of focus from the US and the rich countries of Europe to the two Asian giants- India and China. Economics experts and various studies conducted across the globe envisage India and China to rule the world in the 21st century. India, which is now the fourth largest economy in terms of purchasing power parity, may overtake Japan and become third major economic power within 10 years. To conclude we can say 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 our country.

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