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IMPACT OF GLOBALISATION: THE INDIAN EXPERIENCE

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ABSTRACT

Globalisation is the new buzzword that has come to dominate the world since the nineties of the last century with the end of the cold war and the break-up of the former Soviet Union and the global trend towards the rolling ball. Unlike how the presently developed economies expanded and went global in their hoary past, the main reform initiatives in India (like in many other developing countries), were undertaken after a fiscal and foreign exchange crisis which brought it to the verge of default on the foreign loans. Thus, the Indian globalisation is a result of the decadence within and the pressure from without. The effects of globalisation on the Indian economy in the post-globalisation years are clearly visible in the foreign sector - foreign exchange reserves, international trade, inflow of foreign capital, etc. This paper explores the contours of the on-going process of globalization. Throughout this paper, there is an underlying focus on the impact of globalisation on the Indian economy.

KEYWORDS: Globalization, Economy, Recession, Foreign Exchange.

INTRODUCTION

The growing integration of economies and societies around the world – has been one of the most hotly debated topics in international economics over the past few years. Rapid growth and poverty reduction in India, China, and other countries that were poor 20 years ago, has been a positive aspect of Liberalisation, Privatisation, and Globalisation (LPG). But globalisation has also generated significant international opposition over concerns that it has increased inequality and environmental degradation. Globalisation has many meanings depending on the context and on the person who is talking about. Though the precise definition of globalisation is still unavailable a few definitions are worth viewing. Guy Brainbant said that the process of globalisation not only includes opening up of world trade, development of advanced means of communication, internationalisation 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. The term globalisation refers to the integration of economies of the world through uninhibited trade and financial flows, as also through mutual exchange of technology and knowledge. Ideally, it also contains free inter-country movement of labour (Goyal, 2006).

There is a need to study the impact of globalisation on developing countries and particularly on the Indian economy. Unlike how the presently developed economies expanded and went global in their hoary past, the main reform initiatives in India (like in many other developing countries), were undertaken after a fiscal and foreign exchange crisis which brought it to the verge of default on the foreign loans (Malik, 2008). Thus, the Indian globalisation is a result of the decadence within and the pressure from without. The effects of globalisation on the Indian economy in the post-globalisation years are clearly visible in the foreign sector - foreign exchange reserves, international trade, inflow of foreign capital, etc. This paper explores the contours of the on-going process of globalisation. Throughout this paper, there is an underlying focus on the impact of globalisation on the Indian economy. The paper has been divided into five sections. Section 1 provides the introduction and general context of the globalisation. The origin of globalisation in India has been explained in section 2. Section 3 presents the major initiatives undertaken by the Indian government as a part of the globalisation strategy. Section 4 assesses the impact of globalisation on various fields of the Indian economy. Section 5 comprises the conclusion and future challenges of globalisation for the Indian economy.

ORIGIN OF GLOBALISATION PROCESS IN INDIA

It is only from 1991 onwards that India really initiated its meaningful process of globalisation. Before 1991, India was essentially state guided with public sector enterprises (PSEs) occupying the commanding heights. The controlled prices, exchange rates and investment were directed by the planned objectives (Gupta and Singh, 1995). Until the early eighties, India’s macro-economic policies were considered conservative and inward oriented. The current revenues of the central government exceeded current expenditures and a surplus was available to finance in part the deficit in the capital account.

In the early eighties, because of lax fiscal policies, current revenue surpluses turned into deficits (Srinivasan, 2004). The widening gap between the revenue and expenditure of the government resulted in growing fiscal deficits which had to be met by borrowing at home. Further, the steadily growing difference between the income and expenditure of the economy as a whole resulted into a large current account deficits in the balance of payments which were financed by borrowing from abroad. The revenue deficit had risen from 0.2 per cent of GDP in 1981-82 to 3.3 per cent of GDP in 1990-91. But, the most disquieting development was a steep rise in the gross fiscal deficit which rose from 5.7 per cent of GDP in 1980-81 to 6.6 per cent of GDP in 1990-91. Since this fiscal deficit had to be met by recourse to borrowings, the internal debt of the central government rapidly rose from 35 per cent of GDP in 1980-81 to 49.8 per cent of GDP in 1990-91. Further, interest payments on these debts also rose rapidly. This naturally made the burden of servicing the debt onerous (Mishra and Puri, 2007).

The Gulf War of 1990 and the political instability at the turn of the decade, further, contributed towards the collapse of international confidence in the Indian economy and the result was the balance of payments crisis of 1991. Inflation was rising, industrial production was declining, foreign exchange reserves at one billion US dollars were at the lowest level ever, and the possibility of international default was real (Ahluwalia, 1999). The expectations of the devaluation of the rupee and the decline in the confidence led to the withdrawal of deposits in the Indian banks by non-resident Indians and to the withdrawal of capital by other external investors. Foreign exchange reserves dwindled to a level that was less than the cost of two weeks' worth of imports. The spectre of default on short-term external loans loomed large and led to a downgrading of India's credit rating (Gupta and Singh, 1995).

In response to the crisis situation of 1990-91, the government decided to adopt the policy of globalisation. The major thrust of this policy was to free the home market for the foreign traders, which was through the removal of controls on industrial investment and on imports, reduction of import tariffs and creation of a more favourable environment for attracting foreign capital (Srinivasan, 2004).

STEP TOWARDS GLOBALISATION

Indian economy was in deep crisis in July 1991, when foreign currency reserves had plummeted to almost US $1 billion; Inflation had roared to an annual rate of 17 per cent; fiscal deficit was very high and had become unsustainable; foreign investors and NRIs had lost confidence in Indian Economy. Capital was flying out of the country and we were close to defaulting on loans. Along with these bottlenecks at home, many unforeseeable changes swept the economies of nations in Western and Eastern Europe, South East Asia, Latin America and elsewhere, around the same time. These were the economic compulsions at home and abroad that called for a complete overhauling of our economic policies and programmes (Goyal, 2006). Major measures initiated as a part of the liberalisation and globalisation strategy in the early nineties included the following:

- **Devaluation:** The first step towards globalisation was taken with the announcement of the devaluation of Indian currency by 18-19 per cent against major currencies in the international foreign exchange market. In fact, this measure was taken in order to resolve the BOP crisis.
- **Disinvestment:** In order to make the process of globalisation smooth, privatisation and liberalisation policies are moving along as well. Under the privatisation scheme, most of the public sector undertakings have been/ are being sold to private sector.
- **Dismantling of The Industrial Licensing Regime:** At present, only six industries are under compulsory licensing mainly on accounting of environmental safety and strategic considerations. A significantly amended locational policy in tune with the liberalized licensing policy is in place. No industrial approval is required from the government for locations not falling within 25 kms of the periphery of cities having a population of more than one million.
- **Allowing Foreign Direct Investment (FDI)** across a wide spectrum of industries and encouraging non-debt flows. The Department has put in place a liberal and transparent foreign investment regime where most activities are opened to foreign investment on automatic route without any limit on the extent of foreign ownership. Some of the recent initiatives taken to further **liberalise the FDI regime**, inter alias, include opening up of sectors such as Insurance (up to 26 per cent); development of integrated townships (up to 100 per cent); defence industry (up to 26 per cent); tea plantation (up to 100 per cent subject to divestment of 26 per cent within

five years to FDI); enhancement of FDI limits in private sector banking, allowing FDI up to 100 per cent under the automatic route for most manufacturing activities in SEZs; opening up B2B e-commerce; Internet Service Providers (ISPs) without Gateways; electronic mail and voice mail to 100 per cent foreign investment subject to 26 per cent divestment condition; etc. The Department has also strengthened investment facilitation measures through Foreign Investment Implementation Authority (FIIA).

- **Throwing Open Industries Reserved For The Public Sector to Private Participation.** Now there are only three industries reserved for the public sector.
- **Abolition of the Monopolistic Restriction (MRTP) Act**, which necessitated prior approval for capacity expansion.
- **The removal of quantitative restrictions on imports.**
- **The reduction of the peak customs tariff** from over 300 per cent prior to the 30 per cent rate that applies now.
- **Severe restrictions on short-term debt and allowing external commercial borrowings** based on external debt sustainability.
- **Wide-ranging financial sector reforms** in the banking, capital markets, and insurance sectors, including the deregulation of interest rates, strong regulation and supervisory systems, and the introduction of foreign/private sector competition.

IMPACT OF GLOBALISATION ON INDIAN ECONOMY

The implications of globalisation for a national economy are many. Globalisation has intensified interdependence and competition between economies in the world market. These economic reforms have yielded the following significant benefits:

IMPACT ON GDP AND PER CAPITA GDP

Globalisation in India had a favourable impact on the overall growth rate of the economy. During the reforms period, India substantially improved the pace of their Gross Domestic Product (GDP) and per capita GDP. As is clear from the Table 1, during the period 1980-2005, the average annual growth rate (AAGR) of India’s total GDP and per capita GDP (i.e. 5.7 per cent and 3.6 per cent respectively) remained well above than that of world’s (i.e. 2.7 per cent and 1.1 per cent respectively). Further, it should be noted that during the post globalisation period the growth of India’s total and per capita GDP was higher than that of the pre-globalisation period, which was the result of a high rate of domestic savings and foreign capital inflows which made a continuous higher investment rate possible and a higher growth rate of industrial production.

Table 1 : Average Annual Growth Rate of Total and Per Capita Real GDP: India and World

Countries	1980-90		1990-00		2000-05		1980-2005	
	Total GDP	Per Capita GDP	Total GDP	Per Capita GDP	Total GDP	Per Capita GDP	Total GDP	Per Capita GDP
1. India	5.8	3.4	6.0	3.9	6.7	5.0	5.7	3.6
2. World	3.1	1.3	2.8	1.3	2.8	1.5	2.7	1.1

Source: Handbook of Statistics 2006-07, UNCTAD.

IMPACT ON SAVINGS AND INVESTMENT

During the globalisation period, the share of gross domestic savings and gross domestic capital formation in India's GDP improved slightly. Table 2 reveals that the average annual share of India's gross domestic savings in its GDP grew from 22.70 per cent during 1991-95 to 28.62 per cent during 2001-05. Whereas the share of gross domestic capital formation in its GDP grew from 23.86 per cent during 1991-95 to 28.29 per cent during 2001-05. Thus, though there is a slight improvement in India's gross domestic savings and gross domestic capital formation, but it is still very low as compared with other developing countries like China.

Table 2 : Average Annual Percentage Share of Savings and Investment in GDP: India

Years	Gross Domestic Saving	Gross Domestic Capital Formation
1991-95	22.70	23.86
1996-00	23.45	24.55
2001-05	28.62	28.29
1986-2005	23.97	25.19

Source: Asian Development Bank: Key Indicators (Various Issues).

IMPACT ON VARIOUS SECTORS OF THE ECONOMY

In India, the process of globalisation has a big impact on its various sectors. Table 3 shows the share of all the three sectors in India's GDP. During the globalisation period, the share of agriculture in India's GDP declined substantially (i.e. from 28.52 per cent during 1991-95 to 20.42 per cent during 2001-05). However, this declined share of agricultural sector was mainly absorbed by the service sector, which grew from 45.01 per cent during 1991-95 to 52.99 per cent during 2001-05. While, on the other side, the share of industrial sector remained almost unchanged and oscillated around 26 per cent. Thus, it can be said that the major driver of India's economic development during the globalisation process was its service sector.

Table 3 : Average Annual Percentage Share of Agriculture, Industry and Service Sector in GDP: India

Years	Agriculture	Industry	Service
1991-95	28.52	26.48	45.01
1996-00	25.57	26.27	48.16
2001-05	20.42	26.59	52.99
1986-2005	26.32	26.78	46.90

Source: Asian Development Bank: Key Indicators (Various Issues).

IMPACT ON GOODS AND SERVICES TRADE

During the reforms period, there has been a considerable expansion of goods trade and services trade in India. However, the share of service trade improved more rapidly than that of goods trade. This is clear from the Table 4 that the share of goods exports and imports declined from 80.61 per cent and 78.23 per cent during 1991-95 to 69.61 per cent and 72.77 per cent during 2001-05 respectively. While the share of service exports and imports increased from 19.39 per cent and 21.77 per cent during 1991-95 to 30.39 per cent and 27.23 per cent during 2001-05 respectively. Thus, it can be said that during the globalisation period with the strengthening up of the service sector in the Indian economy, the share of service trade also improved substantially.

Table 4 : Average Annual Per centage Share of Goods Trade and Service Trade in Total Exports and Imports: India

Years	Exports		Imports	
	Goods	Services	Goods	Services
1991-95	80.61	19.39	78.23	21.77
1996-00	76.08	23.92	76.84	23.16
2001-05	69.61	30.39	72.77	27.23
1981-2005	75.93	24.07	77.41	22.59

Source: Balance of Payment Statistics Yearbook, IMF (Various Issues).

IMPACT ON MERCHANDISE TRADE AND BALANCE OF PAYMENTS

During the reforms period, India has dramatically reformed its foreign trade regime, which greatly promoted the development of foreign trade and contributed to rapid economic development (Yin, 2004). Due to much less value of exports than that of imports in all the sub-periods, India experienced a negative trade balance. India had a large negative current account balance also in all the sub-periods, except the last one, i.e. 2001-05. During this period, India's service exports rose sharply which turned the negative current account balance into positive. During 1986-90, India's average annual overall balance of payment was also negative (i.e. US $ -399 million). This had happened mainly due to the balance of payments crisis of 1990. However, afterwards the policies of globalisation and liberalisation were initiated which enhanced India's capital receipts and, therefore, the balance of payments turned out to be positive. Hence, it improved from US $ 2941 million during 1991-95 to US $ 20275 million during 2001-05 (Table 5).

Table 5 : Average Annual Growth of Trade Balance, Current Account Balance and Overall Balance: India (US $ Million)

Years	Merchandise Exports	Merchandise Imports	Trade Balance	Current account balance	Overall Balance
1991-95	23378 (11.58)	27151 (10.97)	-3773	-3578	2941
1996-00	37301 (8.10)	52371 (9.25)	-15070	-4664	4936
2001-05	71024 (18.77)	95329 (23.30)	-24305	2434	20275
1986-2005	36429 (13.15)	48669 (13.20)	-12240	-2989	6938

Note: Figures in parentheses show average annual per centage growth rates.

Source: Asian Development Bank: Key Indicators (Various Issues).

IMPACT ON FOREIGN DIRECT INVESTMENT INFLOWS

Since independence, India did not seek higher share of relatively more stable FDI and instead opted for more volatile Foreign Portfolio Investment (FPI). The reason was that at that time an influential class of private capitalists was present in India which received protection from stringent import control regime for forty years till 1990-91 and this class of capitalists did not want FDI in competing areas but advocated it mostly through the joint venture route and in areas like physical infrastructure where it would be complementary (Tendulkar and Bhavani, 2007). However, since the mid-eighties, FDI inflows in India improved considerably. And after the inception of globalisation process, India put its doors wide open for the Foreign Direct Investment (FDI) inflows and succeeded in attracting huge amounts of FDI inflows. As is clear from Table 6, the total amount of FDI in India rose substantially from US $ 797 million during 1991-95 to US $ 5574 million during 2001-05. However, the average annual growth of India's FDI declined considerably from 96.54 per cent during 1991-95 to 16.29 per cent during 2001-05.

Table 6 : Level and Average Annual Growth of Foreign Direct Investment Inflows: India

Years	India[1] (US $ Million)	Average Annual Growth
1991-95	797	96.54
1996-00	2906	16.23
2001-05	5574	16.29
1981-2005	1904	57.79

Note: 1. Figures are in average.

Source: World Investment Report, UNCTAD (Various Issues).

CONCLUSIONS AND FUTURE CHALLENGES FOR THE INDIAN ECONOMY

To sum up, it can be said 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. However, to gain the best possible results of globalisation, the Indian economy has to face many challenges as following:

- Sustaining the growth momentum and achieving an annual average growth of 9-10 per cent;
- Simplifying procedures and relaxing entry barriers for business activities and providing investor friendly laws and tax system;
- 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 a high population growth, GNI per capita remains very poor;
- Boosting agricultural growth through diversification and development of agro processing industry;
- Expanding industry fast, by at least 10 per cent per year to integrate not only the surplus labour in agriculture but also the unprecedented number of women and teenagers joining the labour force every year;
- Developing world-class infrastructure for sustaining growth in all the sectors of the economy;
- Allowing foreign investment in more areas;

- Effecting fiscal consolidation and eliminating the revenue deficit through revenue enhancement and expenditure management;
- Some regard globalisation as the spread of western culture and influence at the expense of local culture. Protecting domestic culture is also a challenge;
- Global corporations are responsible for global warming, the depletion of natural resources, and the production of harmful chemicals and the destruction of organic agriculture;
- The government should reduce its budget deficit through proper pricing mechanisms and better direction of subsidies;
- Empowering the population through universal education and health care, India must maximize the benefits of its youthful demographics and turn itself into the knowledge hub of the world through the application of information and communications technology (ICT) in all aspects of Indian life although, the government is committed to furthering economic reforms and developing basic infrastructure to improve lives of the rural poor and boost economic performance. Government had reduced its controls on foreign trade and investment in some areas and has indicated more liberalization in civil aviation, telecom and insurance sector in the future.

Globalisation is inevitable in today's world and we have to prepare ourselves for the challenges and opportunities it offers. In other words, it can be said that globalisation is a universal process. No country is exception of this process and so the Indian economy. 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 only since then the focus has been shifted 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.

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