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## RESEARCH ARTICLE

### GLOBALISATION AND ITS IMPACT ON INDIAN ECONOMY

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#### ABSTRACT

Globalization in India (LPG) was to make the Indian economy one of the fastest growing economies in the world. An array of reforms was initiated with regard to industrial, trade and social sector to make the economy more competitive. 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 and inflation was as high as 17%. Fiscal deficit was also high and NRI's were not interested in investing in India. Then the following measures were taken to liberalize and globalize the economy. The world has become increasingly interdependent and integrated. It has been the harbinger of radical change. All the fortune 100 companies have a foothold in the world market and reaping large revenues. The trade barriers have been lowered worldwide resulting in expansion of trade, foreign direct investment, exchange of technology, greater movement of people across borders. Globalisation has come with both benefits and losses. The comprehensive review presented shows the importance of it. It should be clear that the increasing importance of globalisation cannot be underestimated or ignored. In more than way globalisation is the need of the hour.

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#### INTRODUCTION

Globalization has been a recent phenomenon that has swept the world. The world has become increasingly interdependent and integrated. It has been the harbinger of radical change. All the fortune 100 companies have a foothold in the world market and reaping large revenues. The trade barriers have been lowered worldwide resulting in expansion of trade, foreign direct investment, exchange of technology, greater movement of people across borders. The Indian markets were open for foreign companies and investors more and more privatization began to take place and India turned into a more capitalized form of economy. The liberalization, privatization and globalization police of 1991 opened up new horizons of opportunities for the Indian business (source: Indian business in the present scenario in Indian business).

#### Definitions

According to International Monetary Fund, which stresses the growing economic interdependence of countries worldwide through increasing volume and variety of cross-border transactions in goods and services, free international capital flows, and more rapid and widespread diffusion of technology?

According to Dr. Ismail Shariff, globalization is the worldwide process of homogenizing prices, products, wages, rates of interest and profits

The term "globalization" is used to refer to these collective changes as a process, or else as the cause of turbulent change.

Broadly speaking, the term 'globalization' means integration of economies and societies through cross country flows of information, ideas, technologies, goods, services, capital, finance and people.

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Cross border integration can have several dimensions – cultural, social, political and economic. In fact, some people fear cultural and social integration even more than economic integration. The fear of "cultural hegemony" haunts many. Limiting ourselves to economic integration, one can see this happen through the three channels of (a) trade in goods and services, (b) movement of capital and (c) flow of finance. Besides, there is also the channel through movement of people.

Globalization relies on three forces for development:

- 1 The role of human migration
- 2 International trade, and rapid movements of capital
- 3 Integration of financial markets.

While looking at globalization following questions need to be answered:

1. Does it protect wages and reduce income inequalities?
2. Is the good for the economy?
3. Does it boost economic growth?
4. Is it bad for workers?
5. Does it increase poverty and inequality?
6. Is a threat to the environment?
7. Does it improve our society?

#### Globalization in India

In early 1990s the Indian economy had witnessed dramatic policy changes. The idea behind the new economic model known as Liberalization, Privatization and Globalization in India (LPG), was to make the Indian economy one of the fastest growing economies in the world. An array of reforms was initiated with regard to industrial, trade and social sector to make the economy more competitive. 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 and inflation was as high as 17%. Fiscal deficit was also high and NRI's were not interested in investing in India. Then the following measures were taken to liberalize and globalize the economy.

### Effects of Globalisation

#### Globalization and the social sector

As far as the social sectors are concerned, it is believed that as globalization continues people tend to discarded long standing restrictions and prejudices and discriminations based on gender, race colour and religions. Benefits of globalization in the developing nations can also be observed in the improvement of the socio-economic status of women there. India has seen a rapid rise in the status of women, looking at the presence of women in every field. The advancement in medicine, new and amended public health polices, and increase in food supplies also count as other benefits of globalization. India is fast becoming a centre for medical tourism the advances in the medical services have diminished the infant mortality rate and increased the expectancy of life.

#### Globalition and Indian Manufacturing

The reforms involves putting an end to the license Raja, reduction of high industrial tariffs, the privatization of aluminum, car manufacturing, telecoms and information technology companies, the liberalization of the exchange Mergers, takeovers, global alliances joint ventures and collaborations are taking place, almost every day. India's telecom sector is exploding and all the big handset makers are talking about setting up manufacturing facilities here so that they can cater to this strong domestic demand", says Shirish Sankhe, a partner at Mckinsey in India. This shows that even in a sector where imports were cheaper because of zero duties, "Made in India" is being preferred. Manufacturing capacities are being expanded the country is emerging as a global source. Globalisation has increased share in GDP. Indian has been witnessed of increasing GDP.

**Indian GDP –Trend of Growth Rate**

Years	Growth Rate
1960-1980	3.5%
1980-1990	5.4%
1990-2000	4.4%
2000-2009	6.4%

#### Globalization, Wages and the Income Inequalities

Research indicates that FDI tends to increase wage levels and reduce poverty in both developed countries. For developing ones, it increases income inequalities in the short term but decrease then with greater investment over time. For developed countries FDI tends to decrease income inequalities. Income inequalities among the richest and poorest nations seem to be decreasing. According to the liberals, globalization is an effective tool for eliminating want and for permitting the poor people to get hold of a steady grip of the global economy. For instance, as per World Bank reports, within the two decades from 1980s to 2001, those people living on US\$1 or less or less per day, reduced from 1.5 billion to 1.1 billion. Alongside there is a rise in the total population of the world. So, it is Globalization: It's Impact on the Indian Welfare State an obvious conclusion that in the developing countries, the percentage of those people got reduced from 40% to 20%.It is also claimed that, with globalization, capital can be shifted to whatever country offers the most productive investment opportunities, creating growth.

#### Globalization and Education

Entry of foreign universities is the best example of it. India has become a hub of information technology outsourcing, after the government decided to privatize education ten years ago. The most dramatic impact of the 21<sup>st</sup> century "foreign Hand" is in the opening of the higher education sector to foreign institutions. Most recently; the Ministry of HRD (Human Resource Development) is reported to

have withdrawn the requirement for prior approval before Indian institutions enter into MOUs with foreign institutions. This is undoubtedly a pragmatic step, which reinforces the autonomy of universities and institutions.

#### Globalization and Environment

There is no denying the fact that pollution is reality associated with increased manufacturing shift to developing countries. In an empirical study, Dande found that globalization increase CO2 emission is the main culprit of global warming. A more positive view of globalization would be that it has the potential to enhance productivity and raise the living standards everywhere, since a globally integrated economy makes for a better division of labor and an environment which can be exploited by the large companies to achieve economies of scale. It also claimed that, with globalization capital can be shifted to whatever country offers the most productive investment opportunities, creating economic growth. The concept of corporate social responsibility needs to become a globally accepted fact alongside the globalization of markets, since it will ultimately benefit the business.

#### Actions by India

The second set of measures that should form part of the action plan must relate to strengthening India's position in international trade. India has much strength, which several developing countries lack. In that sense, India is different and is in a stronger position to gain from international trade and investment. India's rise to the top of the IT industry in the world is a reflection of the abundance of skilled manpower in our country. It is, therefore, in India's interest to ensure that there is a greater freedom of movement of skilled manpower. At the same time, we should attempt to take all efforts to ensure that we continue to remain a frontline country in the area of skilled manpower. India can attract greater foreign investment, if we can accelerate our growth with stability. Stability, in this context, means reasonable balance on the fiscal and external accounts. We must maintain a competitive environment domestically so that we can take full advantage of wider market access. We must make good use of the extended time given to developing countries to dismantle trade barriers. Wherever legislations are required to protect sectors like agriculture, they need to be enacted quickly. In fact, we had taken a long time to pass the Protection of Plant Varieties and Farmers' Rights Act. We must also be active in ensuring that our firms make effective use of the new patent rights. South Korea has been able to file in recent years as many as 5000 patent applications in the United States whereas in 1986, the country filed only 162. China has also been very active in this area. We need a truly active agency in India to encourage Indian firms to file patent applications.

In effect, we must build the complementary institutions necessary for maximizing the benefits from international trade and investment. Changes in the foreign trade and foreign investment policies have altered the environment in which Indian industries have to operate. The path of transition is, no doubt, difficult. A greater integration of the Indian economy with the rest of the world is unavoidable. It is important that Indian industry be forward looking and get organized to compete with the rest of the world at levels of tariff comparable to those of other developing countries. Obviously, the Indian Government should be alert to ensure that Indian industries are not the victims of unfair trade practices. The safeguards available in the WTO agreement must be fully utilized to protect the interests of Indian industries. Indian industry has a right to demand that the macroeconomic policy environment should be conducive to rapid economic growth. The configuration of policy decisions in the recent period has been attempting to do that. It is, however, time for Indian industrial units to recognize that the challenges of the new century demand greater action at the enterprise level. They have to learn to swim in the tempestuous waters of competition and away from the protected waters of the swimming pools. India is no longer a country producing goods and services for the domestic market alone. Indian firms are becoming and have to become global players. At the

minimum, they must be able to meet global competition. The search for identifying new competitive advantages must begin earnestly. India's ascendancy in Information Technology (IT) is only partly by design. However, it must be said to the credit of policy makers that once the potential in this area was discovered, the policy environment became strongly industry friendly. Over a wide spectrum of activities, India's advantage, actual and that which can be realized in a short span of time must be drawn up. Of course, in a number of cases, it will require building plants on a global scale. But, this need not necessarily be so in all cases. In fact the advent of IT is modifying the industrial structure. The revolution in telecommunications and IT is simultaneously creating a huge single market economy, while making the parts smaller and more powerful. What we need today is a road map for the Indian industry. It must delineate the path different industries must take to achieve productivity and efficiency levels comparable to the best in the world.

Globalization, in a fundamental sense, is not a new phenomenon. Its roots extend farther and deeper than the visible part of the plant. It is as old as history, starting with the great migrations of people across the great landmasses. Only recent developments in computer and communication technologies have accelerated the process of integration, with geographic distances becoming less of a factor. Is this 'end of geography' a boon or a bane? Borders have become porous and the sky is open. With modern technologies which do not recognize geography, it is not possible to hold back ideas either in the political, economic or cultural spheres. Each country must prepare itself to meet the new challenges so that it is not being bypassed by this huge wave of technological and institutional changes. Nothing is an unmixed blessing. Globalization in its present form though spurred by far reaching technological changes is not a pure technological phenomenon. It has many dimensions including ideological. To deal with this phenomenon, we must understand the gains and losses, the benefits as well as dangers. To be forewarned, as the saying goes, is to be forearmed. But we should not throw the baby with bath water. We should also resist the temptation to blame globalization for all our failures. Most often, as the poet said, the fault is in us. Risks of an open economy are well known. We must not, nevertheless, miss the opportunities that the global system can offer. As an eminent critic put it, the world cannot marginalize India. But India, if it chooses, can marginalize itself. We must guard ourselves against this danger. More than many other developing countries, India is in a position to wrest significant gains from globalization.

However, we must voice our concerns and in cooperation with other developing countries modify the international trading arrangements to take care of the special needs of such countries. At the same time, we must identify and strengthen our comparative advantages. It is this two-fold approach which will enable us to meet the challenges of globalization which may be the defining characteristic of the new millennium. The key to India's growth lies in improving productivity and efficiency. This has to permeate all walks of our life. Contrary to the general impression, the natural resources of our country are not large. India accounts for 16.7 per cent of world's population whereas it has only 2.0 per cent of world's land area. While China's population is 30 per cent higher than that of India's, it has a land area which is three times that of India. In fact, from the point of view of long-range sustainability, the need for greater efficiency in the management of natural resources like land, water and minerals has become urgent. In a capital-scarce economy like ours, efficient utilization of our capacity becomes even more critical. For all of these things to happen, we need well-trained and highly skilled people. In the world of today, competition in any field is competition in knowledge.

### Conclusion

Globalisation has come with both benefits and losses. The comprehensive review presented shows the importance of it. It should be clear that the increasing importance of globalization cannot be underestimated or ignored. In more than way globalisation is the need of the hour. Only countries which have effective social practices can in a true sense, reap the payback of globalisation. We must not, nevertheless, miss the opportunities that the global system can offer. As an eminent critic put it, the world cannot marginalize India. But India, if it chooses, can marginalize itself. We must guard ourselves against this danger.

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