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Globalization in India

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INTRODUCTION

Contemporary world's advances in the direction of integration, have received tremendous momentum through the phenomena of globalization. The present paper tries to evaluate the arrival of the global era in India. Focus of the present research work is to grasp the reality of globalization and track its course and the resultant consequences in social perspectives; in other words, an attempt is made to analyze the changes that cyclone of globalization has catalyzed in Indian socio-economic system.

For convenience, the research paper undertakes the analysis of process of globalization and tries to picture its currents and undercurrents. Globalization has channels through which it influences a particular socioeconomic system. Globalization is a complex phenomenon like development, palpable but in real terms immeasurable. Globalization is a concept which includes a set of empirical indicators which are at best mere pointers or signs and through these signs and pointers an attempt is made to arrive at hypothesis about the impact of globalization on Indian socioeconomic system. Secondly, Indian economic system itself is a concept which doesnot easily fit into any existing mold, hence introductory work is made to picture Indian economic system and emphasis is on historical perspectives and evolutionary approach andfinally, how Indian economic system is affected with this approach. It considers which period was better for the developing country the period when globalization was not present or the period when globalization was present and effective.

GLOBALIZATION AND ITS MEANING

Globalization is the process of rapid integration of economies through cross-border flows of information andtechnology, goodsandservices, capital andfinance and migration of human population. Integration through global era can interface several aspects – social, cultural, political and economic. Cultural and social integration hasnegative implications more than the economic integration. Globalization imparts us as to easily operating system probably everything relating to an economy and easily services providing to the public to strengthen the economy and society. We can focus study on globalization under following dimensions:

(a) Movement of capital
(b) Flow of finance
(c) Trade in goods and services

Capital flows across countries have played an important role in enhancing the production base. This was very much true in the nineteenthand twentieth centuries. Capital mobility enables total savings of the world to be distributed among countries which have the highest investment potential. Under these circumstances, one country's growth is not constrained by its own domestic savings. Capital flows can take the form of either foreign direct investment or portfolio investment. For developing countries, the preferred alternative is foreign direct investment. Portfolio investment does not directly lead to expansion of productive capacity. It may do so, however, at one step removed. Portfolio investment can be unstable particularly in times of loss of confidence. That is why countries want to put restrictions on portfolio investment. However, in an open system such restrictions cannot work easily.

The course of globalization had been adopted by India in the decade of 1990 and after, which in turn had huge growth in financial institutions, i.e., financial flows. Process of globalization plays an important role in development of capital market and to make it easy to provide finance for debtors and strengthen the financial market in India. Borders have diluted owing to this course and it has facilitated transfer of resources across the borders and the vital income has been collected through foreign exchange market. As per Frankel, 2000 a gross turnover around $1.5 trillion per day worldwide is estimated. The currency trade has become an end in itself since the gross turnover is of the order of hundred times greater than the volume of trade in goods and services. For international transfer of capital, the expansion in foreign exchange markets and capital markets is a pre-requisite. However, the unpredictability of foreign exchange market and the simplicity with which funds can be withdrawn from countries has often created panic situations. East Asian crisis is the most recent example of the same. It is obvious that when one country faces a crisis, it affects others also. The financial markets usually have a propensity to exaggerate weaknesses. The developing countries must learn from East Asian crisis. One of the commentators has correctly said, “The trigger was sentiment, but weakness was due to fundamentals.”

INDIAN ECONOMIC SYSTEM

Much before the world came to know about India in economic perspectives through its spectacular growth in recent years, Indian economic system had lived for ages. History of international trade and relations point out that India was the first superpower of the world in military and economic dimensions. In ancient world, India and China together accounted for 60% of the world production. Having touched the peak early, the decline of India started with rise of Mongol Empire which took over the control of major trade routes of the world of the time especially the Silk route. Indian economy touched the zenith under colonial systematic exploitation during rule of The British East India Company. So it had continued until India finally gained independence.

POST-INDEPENDENCE ECONOMY OF INDIA

With wounds and scars of wounds bleeding, Indian economy tried to stand up under the leadership of Jawaharlal Nehru. It has been termed as The Big Move toward Protectionist Posture. The Indian independence movement in 1940s, led by Mahatma Gandhi, was based on the general dislike of anything and everything “foreign,” especially the one originating from Britain. The public rallies to burn imported goods were famous. There was a strong belief that India can produce everything at home, can be “self-reliant” and “self-dependent” (popularly called “Swadeshi movement”). Moreover, it was believed by strong nationalist movement that the import of goods was meantto bring the “foreign dominance.”As a result, foreign direct investment was seen to be a curse rather than blessing or a means of attracting higher investment. As a consequence, multinational corporations were seen as the exploitative entities that merely benefit from cheap labor in the country, and were believed to be the ones that take the profits back home to better their lavish living and conspicuous standard of living.

Naturally, it was hard to convince the policy makers that import substitution was an expensive policy action in economic sense, even if politically it seemed to be a "patriotic" thing to do. The export and import were so low that they formed less than 1% of the total world trade. These low figures of trade were by the country that had roughly 15% of world population. The highest merchandise export figure was reached in 1980 (of $919.8 million) and they declined significantly in 1981 and 1982.For sixyears in a row (from 1979 to 1985), the merchandise exports were stagnant at roughly $700 to $800 million. The services sector did not fare any better. While the services exports were steadily increasing in this period, the figures were less than $400.00 million. This was a period when computer technology services were unheard of and services sector in India was poorly developed, so exports were not that attractive.

Merchandise imports (trade) were highest in 1981 (at $925.5 million) and with that exceptional year they were steadily increasing. One can see the giant jump in import of merchandise in the year 1974, thanks to the first oil price increase by OPEC. India had not found any indigenous source of oil then and was primarily dependent upon the foreign oil. Nevertheless, the total merchandise import bill never crossed $1 billion; one of the primary reasons for that was the tremendous tariff rates and strict quotas on major imports. In 1974, the policy makers, when they were pointed out the tremendous increase in trade imbalance from $16.2 million (1973) to $160.4 million (1974), efficiently blamed the oil price rise. One of the reasons for this retarded growth in Indian trade was the disoriented trade policy. There was even a problem of assigning priority to industries for importing necessary parts and raw materials. As Desai[1] put it, "It was not surprising, therefore, that the agencies involved in determining industry-wise allocation fell back on vague ideas of 'fairness,' implying allocations with reference to capacity installed or employment, or shares defined by past import allocations and similar other rules of thumb without any rationale."

The hardship experienced by this virtual "closed economy" was no more evident than in early 1970s when the economy went through numerous shocks. The poor monsoons created agricultural production shortfall leading to severe droughts in some parts of the country. This put pressure on industrial production which was not progressing well in the first place. Due to additional burden exerted by the Indo-Pakistan War of 1971, the economy started suffering miserably. Rationing of necessities was common and criminal elements made a crime by hoarding. The political opposition parties made life miserable for Indira Gandhi government which had a little choice but to blame all starvation on foreign elements. In 1973, came the OPEC oil price shock and the things really went out of control. While the country had no reserves to pay for imported oil, the import bill was growing very fast and export earnings were slow. According to economic survey figures for 1973, imports increased from $191.7 to $291 million and again in 1976 went up to $402 million. Political parties were extremely active. But economically there was no way out. The protectionism was to the highest level. Consider the 350% import tariff rate on automobiles and average tariff rate of 152%.Domestic industries were well protected that they loved being monopolists and had no inclination for technological modernism. Strict foreign exchange controls were not only required but were very necessary to stop illegal foreign currency and gold smuggling transactions. It was an administrative terrible where rent seeker made merry and black market constituted half of the official economy. Academicians learned several lessons of how protectionism can ruin the economy and policy makers watched economy reaching a real low point while they searched for solutions.

To top the political disorder, the ruling party (Indira Congress) declared Emergency restricting many a freedoms and ruthlessly putting anyonein jail, who gave even a hint of "anti-governmental activity."The country definitely needed a magic for rapid economic growth which could have silenced the political "trouble makers."In early 1980s, monsoon god was nice to India. While agricultural sector that was in desperate need to prosper, received a big boost, the industrial sector invented a few new technological advances and grew much more rapidly than before. India also realized that she can do much better in service sector. All in all, the economy started prospering at a slow rate but definitely at a much better rate than in 1970s;in turn, reductions in tariff rates were activated in early 1980s,but the real support for globalization, liberalization and reduction in protectionism came in late 1980s.

POLICY CHANGES TOWARDS LIBERALIZATION (1980–90)

The Sixth Five Year Plan (1980–85) was actually launched during Indira Gandhi's governance in January 1980, though it was initially planned by the Janata government for the period 1978–83.The development strategy of this plan was "Industrial Growth with Direct Measures for Poverty Eradications."As a special effort to stimulate and accelerate industrial growth against the background of India's slower growth in the industrial sphere, Indira Gandhi government published a new Industrial Policy Statement just before the Sixth Five Year Plan. This plan focused in favor of "liberalization" and "export-promotion" retrospectively, though no specific attention was given to "directional changes."

During the regime of Mrs. Gandhi, a number of steps were taken to reform the overall industrial policy in such a way that it could become more favorable to promotion of competition, modernization and cost-efficiency. The reform measures had three basic objectives, namely, to facilitate capacity creation, to facilitate output expansion, and to remove procedural impediments. Support for these policy reforms is also reflected in the underlying development strategy of the Seventh Five Year Plan (1985–90) – "Industrial Growth and Liberalisation." Some of the major industrial policy changes that resulted from the new industrial policy initiatives were: de-licensing of a wide range of industries, expansion of asset ceiling of the big monopoly houses and the MRTP companies, liberalization of depreciation provisions, reduction of both corporate and personal tax rates, extreme import liberalization, extension of broad-banding to a larger number of industries, elimination of many of the existing government controls, etc.

The main objective of industrial policy under Rajiv Gandhi government was thus

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to encourage economic growth led by the private sector, with the public sector playing more and more of a subordinate role. In fact, the modernization program through technological rationalization and managerial competence had been, since Independence, a very drastic one without any social cost consideration. As the Rajiv Government had complete faith in the "trickledown" approach of economic growth and development, the direct programs for poverty eradication of the previous Plan were no longer an important preoccupation of Mr. Gandhi's regime. According to Economic Survey–the official annual report of the Government of India – industrial production during 1980–87 grew at a compound annual rate of 7.6% and during 1987–88 at 7.5% as against that of 4.2% per annum during 1971–80.There had been a number of infrastructural developments in the Indian capital market during the second half of the eighties. In spite of various positive developments on the industrial front, the regime started experiencing some disturbing trends since 1987-88.Besides the monsoon failure, there had been a substantial decline in industrial licenses, especially for the backward areas, virtual stagnation of employment growth in the organizedsegment, the increasing incidence of industrial sickness, increasing foreign debt, etc. There had been evidence of a marked slowing down of the rate of growth of industrial production since 1989–91.

THE WAVE OF GLOBALIZATION ARRIVED

During 1980s, Rajiv Gandhigovernment tried to implement some policy changes, but till then macro-economy had already, suffere adequate, damaged by previous errors. Aggarwal (2004) states, "The macroeconomic crisis reached its peak in 1990 with combined fiscal deficit of Centre and State Governments standing at 10% as percentage of GDP, current account balance at 3.3% of GDP backed by a rate of inflation 9.9% despite India's record economic performance measured in terms of rate of growth of GDP, 6.0%, due to high rates of industrial growth of 5.9% and domestic saving ratio of 21.9% of the GDP."However, this was escorted by strange macro-imbalances that resulted into tremendous external borrowing, leading to heavy external debt of 28.7%.As Joshi-Little (1997) pointed out, "For the first time in her history, India was nearly forced to the prospect of defaulting on her international financial commitment. Added burden of oil price shock due to Gulf War of 1991 put the country in such a precarious condition that foreign reserves of worth "only 3 weeks of imports" were left in the treasury. Something drastic had to be done.

In June of 1991, when the current Prime Minister Dr. Manmohan Singh was the Finance Minister (and Mr. Narasinha Rao was the Prime Minister), the country received first significant shock of globalization and liberalization. This was also the product of strong demand by some well-known economists and policy planners for significantly changing the policy structure. While the declared plan reduced the rupee value significantly by devaluating it by 21% in one day, it also made it abundantly clear that the old ways of high tariff rates were almost completely over. The tariff rates were slashed, more foreign direct investment (FDI) was invited and import quotas were demolished. There were essentially two parts of the liberalization program: structural and stabilization. The structural adjustment was to be of a long-term nature with such measures as the convertibility on current account of the balance of payment, lower restrictions on domestic business and export promotion.

Aggarwal stated that to achieve meaningful changes in trade and exchange rate policies, a move was made from a dual exchange rate system in 1992 to a single-market-determined unified exchange rate system, to full convertibility of the rupee on current account on balance of payment in 1993.This affected many related factors, viz., devaluation of the rupee, quantitative restrictions except quota on consumer goods, trimming and rationalizing the structure of mounting export subsidies, etc. These steps apart from making a complete switch in the policy moves heretofore also impacted policy makers' inclination to have market-oriented economy as the blunders of government controls were becoming more and more visible.

The post-reform years showed quick and efficient recovery from the acute macroeconomic crisis of 1991.The real GDP in 1990s increased at an annual rate of 6% which is even more impressive because the rest of the world was going through a minor recession. The highest increase in real GDP was experienced in 1996-1997 with 7.8%.Increased production had its effect on the prices. Inflation rate of 13.6% in 1991 was reduced to 1.3% in 2001-2002, a remarkable achievement by any standard. The monetary policy was carried out responsibly and the fiscal pressures were negative but much more manageable than in earlier years. However, the fiscal policy severity program was not totally effective; thanks to the crisis created by Iraq war as well as political troubles all over the country. In the first three years of 1990s, the economic hardships continued partly due to the increased oil price and overall recessionary forces, coupled with political instability, lack of technological innovation, and poor monsoon. The recessionary trend did not last for a long time however. The increased international trade freer economy technological improvements prompted by tremendous growth in information technology combined to show positive effects from 1994.Liberalizationhas at least partially become effective in attracting foreign direct investment, positive outlook for the Indian economy and overall excitement amongst producers and investors.Indian economy was on the move in a serious way.

In 1994, inflation rate decreased from 13.7% in 1992 to 8.4%, although the real GDP increased by 5.9%.This resulted in downward pressure as the interest rate was still very high. Owing to increase in population, official unemployment was very high (36.69 million) but since it remained constant, it reflected as a mild achievement. However, the Indian unemployment is beyond the reported figures of unemployed labor, as evident for years together. This comprised in heavy under-employment; marred by extreme poverty partly due to illiteracy. Due to very limited industrialization in rural and semi-rural areas of extreme backwardness, the projected "full-time employment" in India concentrated mainly in the urban region. In addition to those problems are the imperfections of labor market, the complications in collecting the data, the Indian labor employment (or unemployment) is as hard to report as its population survey results. But these imperfections notwithstanding, the economic growth in 1990s looks impressive; it does not matter how one calculates it.

Better monsoons in years 2000 to 2004 helped not only the agricultural sector grow faster but also the manufacturing, trade and services sectors move admirably. In 2004, it became official that Indian economy was second fastest growing in the world, second only to the Chinese economy. In fact, the Chinese economy's growth is also primarily explained by his newly found affection for openness. The Indian economy, much like the world economy, went through technological change. While the computer mega cities such as Bangalore (that now has 1500 foreign company offices), Hyderabad and Pune grew at an unprecedented rates, the repercussions of this industrial growth was felt in many of the adjacent rural areas. In fact in April 2005, it was confirmed that India officially achieved 8% growth in 2004 in over point of view from the above comprehensive discussion that globalization should have been stayed in India for a long period of time and ignore the negative consequences of globalisation.

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