Globalization & Its Impact on Indian Economy

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The human society around the world, over a period of time, has established greater contact, but the pace has increased rapidly since the mid 1980's.The term globalization means international integration. It includes an array of social, political and economic changes. Unimaginable progress in modes of communications, transportation and computer technology have given the process a new lease of life. The world is more interdependent now than ever before .Multinational companies manufacture products across many countries and sell to consumers across the globe. Money, technology and raw materials have broken the International barriers. Not only products and finances, but also ideas and cultures have breached the national boundaries. Laws, economies and social movements have become international in nature and not only the Globalization of the Economy but also the Globalization of Politics, Culture and Law is the order of the day. The formation of General Agreement on Tariffs and Trade (GATT), International Monetary Fund and the concept of free trade has boosted globalization.

INTRODUCTION:

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.

Globalization has many meanings depending on the context. In context to India, this implies opening up the economy to foreign direct investment by providing facilities to foreign companies to invest in different fields of economic activity in India, removing constraints and obstacles to the entry of MNCs in India, allowing Indian companies to enter into foreign collaborations and also encouraging them to set up joint ventures abroad; carrying out massive import liberalization programs by switching over from quantitative restrictions to tariffs and import duties, therefore globalization has been identified with the policy reforms of 1991 in India.

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Globalization and its Meaning:

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. 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.

Impact of Globalization on Indian Economy: Now the concept of localization is totally changed it's converted into globalization. Go globally and think globally is the mantra of present era. Right from Manufacturing to services, thrust is on globalization. For example, Mazada's sport car MX-5 Maita, was designed in Californiyya, it's proto type product is created in England, assembled in Michigan and Maxico using advanced electronic components which are invented in New Jersy, fabricated in Japan by sourcing the finance from Tokyo and New York and marketed world wide.

As you all know, for the good part of the last decade and even before, various forces in the world have been active to shape the economy of their own countries and internationally in the post Cold War world. Globalization refers to one of the main trends of there orientation of the economy in this period and its main content is to strengthen "market forces". The end of Cold War created a new situation world wide and no force could remain aloof from the demands of this new situation. One of the camps of the bipolar world, the one led by the US, seized that opportunity and released numerous initiatives in the political, military, social and ideological spheres - and most importantly, in the economic sphere. One objective was to give a knockout blow to its arch-rival, the Soviet Union so that it could not rise again, politically, militarily and economically, at least in near term. The other objective was to ensure that this period of global disequilibrium does not give rise to popular revolutions and people's power, which had been kept in check by both super powers for the good part of the Cold War period.

India's foreign trade by select countries: (Rs. In Lacs)

COUNTRY NAME	**JAN 2010**	**APR 2009-JAN 2010**
China	525922	4011611
USA	734346	7318012
Germany	207500	2069001
UK	220289	2434266
Australia	54994	536794
Japan	166608	1353558

(Source: Government of Commerce)

India's major exports by economic region: (Rs. In Lacs)

COUNTRY NAME	JAN2010	APR 2009-JAN 2010
Orgenisation of the petroleum exporting countries (OPEC)	1279994	13824144
South asian association for regional corporation(SAARC)	331230	2853117
Association of south east asian nations(ASEAN)	588829	6749395
Europian union(EU)	1343058	12933164
Economi corporation orgenisation(ECO)	194171	2185845

(Source: Government of Commerce)

India's major export items FY 2010 : (Rs. In Lacs)

Export items	JAN 2010	APR 09-JAN 2010
Pre and semi finished iron and steel	173343	1666627
Iron ore	123240	1562688
Cotton yarn	224765	1455274
Transport equipment	291804	3782851
Phama products	208323	1981642
Plastic and rubber	155201	1489190
Machinery and instrument	438641	5623041
Gems and jewellery	1204708	10732336
Chemical products	730332	6954420
yarn and fabrics	4185	63822
Textile and textile article	975999	8693139

(Source: Government of Commerce)

Foreign direct investment flows of India (FDI) :

The total cumulative amount of FDI inflows in India were Rs 563,656 million, about US$129,656 million over a decade from 1991 to January 2010.

Ranks	Sector	2006-07 (April-March)	2007-08 (April-March)	2008-09 (April-March)	2009-10 (April-March)	Cumulative Inflows (April '00 - Mar. '10)	% age to total Inflows (In terms of US$)
1.	SERVICES SECTOR (financial & non-financial)	21,047 (4,664)	26,589 (6,615)	28,411 (6,116)	20,958 (4,392)	105,411 (23,640)	21 %

2.	COMPUTER SOFTWARE & HARDWARE	11,786 (2,614)	5,623 (1,410)	7,329 (1,677)	4,350 (919)	43,846 (9,872)	9 %
3.	TELECOMMUNICATIONS (radio paging, cellular mobile, basic telephone services)	2,155 (478)	5,103 (1,261)	11,727 (2,558)	12,338 (2,554)	40,706 (8,931)	8 %
4.	HOUSING & REAL ESTATE	2,121 (467)	8,749 (2,179)	12,621 (2,801)	13,586 (2,844)	37,369 (8,357)	8 %
5.	CONSTRUCTION ACTIVITIES (including roads & highways)	4,424 (985)	6,989 (1,743)	8,792 (2,028)	13,544 (2,868)	35,721 (8,059)	7 %
6.	POWER	713 (157)	3,875 (967)	4,382 (985)	6,908 (1,437)	20,919 (4,627)	4 %
7.	AUTOMOBILE INDUSTRY	1,254 (276)	2,697 (675)	5,212 (1,152)	5,609 (1,177)	20,677 (4,565)	4 %
8.	METALLURGICAL INDUSTRIES	7,866 (173)	4,686 (1,177)	4,157 (961)	1,935 (407)	13,440 (3,130)	3 %
9.	PETROLEUM & NATURAL GAS	401 (89)	5,729 (1,427)	1,931 (412)	1,328 (272)	11,504 (2,666)	2 %
10.	CHEMICALS (other than fertilizers)	930 (205)	920 (229)	3,427 (749)	1,707 (362)	11,274 (2,496)	2 %

(Source: Government of Commerce)

Positive Impact of Globalization :

The Indian economy is the 12th largest in USD exchange rate terms. India is the second fastest growing economy in the world. India's GDP has touched US$1.25 trillion. The crossing of Indian GDP over a trillion dollar mark in 2007 puts India in the elite group of 12 countries with trillion dollar economy. The tremendous growth rate has coincided with better macroeconomic stability. India has made remarkable progress in information technology, high end services and knowledge process services.

India, an emerging economy, has witnessed unprecedented levels of economic expansion, along with countries like China, Russia, Mexico and Brazil. India, being a cost effective and labor intensive economy, has benefited immensely from outsourcing of work from developed countries, and a strong manufacturing and export oriented industrial framework. With the economic pace picking up, global commodity prices have staged a comeback from their lows and global trade has also seen healthy growth over the last two years.

The global economy seems to be recovering after the recent economic shock. The Indian economy, however, was hit in the latter part of the global recession and the real economic growth witnessed a sharp fall, followed by lower exports, lower capital outflow and corporate restructuring. It is expected that the global economies will continue to sustain in the short-term, as the effect of stimulus programs is yet to bear fruit and tax cuts are working their way through the system in 2010. Due to the strong position of liquidity in the market, large corporations now have access to capital in the corporate credit markets. Globalization has many positive, innovative and dynamic aspects, all related to the increased market access, increased access to capital, and increased access to technology and information which have led to greater income and employment opportunities. There is no dearth of examples: The world as a whole is definitely more prosperous and more healthy, with average per capita incomes tripling in the last fifty years, child mortality rates halving and life expectancy increasing by ten years since 1965. Trade flows also increased 12-fold in the past fifty years as a result of the removal of natural and artificial barriers.

Gross Domestic Product of India (GDP): The rate of economy improvement has moved up considerably during the last five years. Further rapid capacity expansion has brought India at a forefront of high economic growth giving rise to an era of economic prospective and development. The respective growth rates for past couple of years has been as follows:

India controls at the present 45% of the global outsourcing market with an estimated income of $ 50 bn. The rate of growth of the Gross Domestic Product of India has been on the increase from 5.6 % during 1980-90 to 7% in the 1993-2001 period. In the last four years, the annual growth rate of the GDP was impressive at 9% (2005-06), 9.40% (2006-07), 7.30% (2007-08), 5.40% (2008-09) and 7.20% (2009-10).

	2006-07	2007-08	2008-09	2009-10
GDP Growth	9.40%	7.30%	5.40%	7.20%
CPI	6.40%	9.30%	5.50%	4.90%

(Source: Government of Commerce)

Foreign exchange reserve of India:(US$ billion)

India's foreign exchange reserve have grown significantly since 1991.the reserve, which stood at US $ 5.8 bn at end march1991,increased gradually US $ 281.2 bn to 2009-10. Subsequntently the reserve rose to US $ the reserve rose to US$39bn by end march-02,US $ 107bn by end march 04,US$145 bn by end march 06,US$180 bn end march 08,and further to US $ 281 bn by end jan 2010.

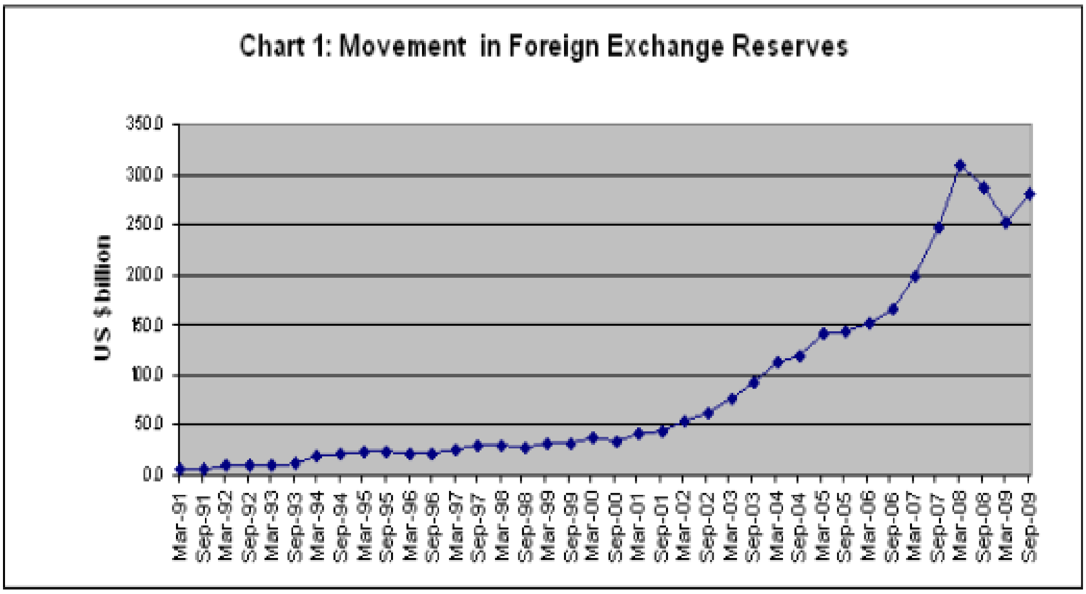
Sources of Accretion to Foreign Exchange Reserves since 1991

(US$ billion)

	Items	1991-92 to 2009-10 (up to end September 2009)
A	Reserves as at end-March 1991	5.8
B.I.	Current Account Balance	-97.9
B.II.	Capital Account (net) (a to e)	357.5
	a. Foreign Investment	185.7
	Of which:	
	(i) FDI	90.4
	(ii) FII	66.9
	b. NRI Deposits	36.9
	c. External Assistance	19.2
	d. External Commercial Borrowings	68.7
	e. Other items in Capital Account*	47.0
B.III.	Valuation Change	15.8
	Reserves as at end-September 2009 (A+BI+BII+BIII)	281.2

- : Include errors and omissions.

(Source: Government of Commerce)



YEAR	Foreign exchange reserve (us bn)
2001-02	$39bn
2003-04	$107 bn
2005-06	$145 bn
2007-08	$180 bn
2009-10	$281 bn

(Source: Government of Commerce)

In respect of market capitalization (which takes into account the market value of a quoted company by multiplying its current share price by the number of shares in issue), India is in the fourth position with $ 894 billion after the US ($ 17,000 billion), Japan ($ 4800 billion) and China ($ 1000). India is expected to soon cross the trillion dollar mark.

Per capita income: The rate of growth of per capita income as measured by per capita GDP at market prices (costant 1999-2000 prices) grew by an annual average rate of 3.1% during 12 years period, 1980-81 to 1991-92.it increased marginally to 3.7% per annum during next 11yrs 1992-93 to 2002-03.since then there has been a sharp acceleration in The growth of per capita income almost doubling to an average of 7.2% per annum (2003-2010).

Brief history of India Per Capita Income

- In 2002-03 the Per Capita Income in India was Rs 19040 (annual).
- In 2003-04 the Per Capita Income in India was Rs 20989(annual)..
- In 2004-05 the Per Capita Income in India was Rs 23241(annual)..
- In 2008-09 the Per Capita Income in India was Rs 31,821(annual)..
- In 2009-2010 the Per Capita Income in India was Rs 33,540(annual)..

Negative Impacts of Globalization

While the world as a whole has benefited from globalization, there are negative and marginalizing aspects of globalization. These are what have led to a backlash, as reflected to a certain extent in the demonstrations by civil society accompanying recent international conferences, and by increasing expressions of dissatisfaction at the governmental level.

1. Agriculture sector:- On the other side of the medal, there is a long list of the worst of the times, the foremost casualty being the agriculture sector. Agriculture has been and still remains the backbone of the Indian economy. It plays a vital role not only in providing food and nutrition to the people, but also in the supply of raw material to industries and to export trade. In 1951, agriculture provided employment to 72 per cent of the population and contributed 59 per cent of the gross domestic product. However, by 2001 the population depending upon agriculture came to 58 per cent whereas the share of agriculture in the GDP went down drastically to 24 per cent and further to 22 per cent in 2005-10. This has resulted in a lowering the per capita income of the farmers and increasing the rural indebtedness. The agricultural growth of 3.2 per cent observed from 1980 to 1997 decelerated to two per cent subsequently. The Approach to the Eleventh Five Year Plan released in December 2006 stated that the growth rate of agricultural GDP including forestry and fishing is likely to be below two per cent in the Tenth Plan period.

The reasons for the deceleration of the growth of agriculture are given in the Economic Survey 2006-07: Low investment, imbalance in fertilizer use, low seeds replacement rate, a distorted incentive system and lo post-harvest value addition continued to be a drag on the sectors performance. With more than half the population directly depending on this sector, low agricultural growth has serious implications for the inclusiveness of growth.

YEAR	Average growth rate in %
1981-82 to 1990-91	3.5%
1991-92 to 1996-97	3.7%
1997-98 to 2009-10	2.5%

(Source: Government of Commerce)

2. Unbalanced distribution of benefits*:* The first negative aspect of globalization is that its gains are not equally distributed, both between and within countries. The benefits of globalization are also badly skewed within countries, both developing and developed. Income inequality is rising in many countries, particularly in the OECD countries. Worse, job and income insecurity is increasing, particularly for \unskilled labor, although corporate restructuring has also meant job insecurity for professionals. Within developing countries, the increased world agricultural prices expected to result from the Uruguay Round should benefit those in agriculture. The urban poor will suffer when food prices rise, but will gain from employment in new export industries. Young women hired by multinationals are likely to benefit most – their incomes increase, with a concomitant increase in their household status. Consumers also gain from the reduction in local prices due to increased competition from abroad.

3. Financial Volatility*:* Unbalanced benefit flows are not the only negative aspects of globalization. Globally integrated markets have financial volatility as a permanent feature, the frequency of financial crises increasing with the growth in international capital flows. The human costs of such financial volatility can be very high, as shown by the effects of the Asian crisis – bankruptcies, poverty increase, rising unemployment, reduced schooling, reduced public services, and increased social stress and fragmentation – in short, a reversal in human development.

***4.* Contagion:** The closer linkages that characterize globalization also allow for contagion and worldwide recession, or at least slowdown. The Asian crisis had repercussions everywhere -- in South America, Russia, Africa, the Middle East – which were affected either directly or indirectly.

5. More human insecurity*:* Crime, disease, and loss of cultural identity. Unfortunately, the many opportunities opened up by the widening and deepening of information flows and contacts among the world's people also include increasing opportunities for crime (trafficking in drugs, weapons, women, international syndicates), for the spread of HIV/AIDS as well as ideas, and for the flow of culture and cultural products which may lead to cultural homogenization, which, while considered enriching by some, is considered as a loss of cultural identity by others.

6. About the impact of globalization, in particular on the development of India, the ILO Report (2004) stated: In India, there had been winners and losers. The lives of the educated and the rich had been enriched by globalization. The information technology (IT) sector was a particular beneficiary. But the benefits had not yet reached the majority, and new risks had cropped up for the losers the socially deprived and the rural poor. Significant numbers of non-perennial poor, who had worked hard to escape poverty, were finding their gains reversed. Power was shifting from elected local institutions to unaccountable trans-national bodies. Western perceptions, which dominated the globe media, were not aligned with local perspectives; they encouraged consumerism in the midst of extreme poverty and posed a threat to cultural and linguistic diversity.

CONCLUSION:

During last decade the volume of world trade has increased and the high and middle income countries have managed to increase their share in world trade. This has happened mainly because of opening up of economies and globalization. Moreover, the middle income countries have invited more Foreign Direct Investment during the period. In contrast with this, the per capita GDP of the low income countries has marginally increased. The economic inequality has widened between different income groups. Therefore one may be tempted to conclude that the globalization has not trickled down to the low income countries. In other words globalization has been confined to developed countries and developing countries have been able to participate in the process. Conclusion However, globalization should not be accused for loosing share of the low income countries. These countries suffer from internal problems like rapid rise in population, infrastructure bottle necks, weak financial markets and so on. More access to globalization and its benefits demand that developing countries first put in place a conducive environment necessary to ensure higher returns and larger markets for foreign investors. To get a share of global capital, technology and output, developing countries have to upgrade their social and economic institutions through administrative, legislative and legal reforms.

Globalization should not be thought of as a solution to everything. It merely provides opportunities. Those who take advantage, they flourish and those who do not they sink. Globalization is not supposed to produce equality of outcome but it produces equality of opportunity for those with right mindset. Hence the developing countries have to focus on economic restructuring building market supporting institutions and creating efficient regulatory mechanisms. Left to themselves the low income countries cannot travel long. What in fact needed is the international assistance and a support mechanism so as to facilitate their participation in the process of globalization. The challenge of the hour is to make globalization work towards global prosperity through disaggregate development. The critically necessity in this context are the collective and cooperative actions which should be realized by all countries of the world and particularly the developed ones.

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