

## GLOBALIZATION AND ITS IMPACT ON INDIAN ECONOMY

### GLOBALIZATION.

Globalization has become an expression of common usage. While to some, it represents a brave new world with no barriers, for some others, it spells doom and destruction. It is, therefore, necessary to have a clear understanding of what globalization means and what it stands for. **The term 'globalization' means integration of economies and societies through cross country flows of information, ideas, technologies, goods, services, capital, finance and people.**

Globalization is a relatively new term used to describe a very old process. It is a historical process that began with our human ancestors moving out of Africa to spread all over the globe. In the millennia that have followed, distance has been largely overcome and human-made barriers lowered or removed to facilitate the exchange of goods and ideas. Propelled by the desire to improve one's life and helped along by technology, both the interconnectedness and interdependence have grown. This increasing integration of the world or 'globalization' has enriched life but also created new problems.

Globalization has been a historical process. During the Pre-World War I period of 1870 to 1914, there was rapid integration of the economies in terms of trade flows, movement of capital and migration of people. There were less barriers to flow of trade and people across the geographical boundaries. Indeed there were no passports and visa requirements and very few non-tariff barriers and restrictions on fund flows. The pace of globalization, however, decelerated between the First and the Second World War. The inter-war period witnessed the erection of various barriers to restrict free movement of goods and services. There are more concerns about globalization now than before because of the nature and speed of transformation. What is striking in the current episode is not only the rapid pace but also the enormous impact of new information technologies on market integration, efficiency and industrial organization. Globalization of financial markets has far outpaced the integration of product markets.

The **key driven areas of globalization** in context to India can be explained as follows:

1. **Exchange of Capital:** Capital is regarded as a produced means of productions. Capital flows across countries have played a very significant role in overall productive mechanism of an economy system, i.e., production, distribution and consumptions. Country like India, Suffering from vicious cycle can only overcome with large inflow of capital from rest of the world.
2. **Flow of Tangible items:** As per modern economists, export is a means of survival for every economic systems of the world. A country need to produce all those commodities in which it enjoy comparative cost advantages and rest of the commodities should buy from other countries which enjoy comparative cost advantages in those commodities. For this, participations in international trade become almost compulsory for every economic unit of the world.
3. **Flow of Intangible items:** It concerned with all services such as banking, insurance, transport, communications and intellectual services.
4. **Flow of Technology:** The competitive efficiency of an economy is depends on its level of techniques applied for productions of goods and services. Through the process of globalization

developed economy offer their advanced technique to the developing economy and enrich their productive mechanism.

**5. Flow of Information Technology:** Recent development in the field of IT, has reduced the dimensions of world and changed it into a 'global village'. IT removed our all constraints, time, distance, place and people. Now we are one community with one thought and with one mantra of oneness, i.e, internationalism. Globalization banished all those narrow thoughts and ideas which we practice in our life and society.

### **LPG in India: Pre and Post 1991**

Indian economy was in deep crisis in July 1991, when foreign currency reserves had plummeted to almost \$1 billion; Inflation had roared to an annual rate of 17 percent; fiscal deficit was very high and had become unsustainable; foreign investors and NRIs had lost confidence in Indian Economy. Major measures initiated as a part of the liberalization and globalization strategy in the early nineties included the following:

- **Devaluation**
- **Disinvestment**
- **Dismantling of the Industrial Licensing Regime**
- **Allowing Foreign Direct**
- **Non Resident Indian Scheme**
- **Throwing Open Industries Reserved For The Public Sector to Private Participation.**
- **Abolition of the (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.
- **Wide-ranging financial sector reforms** in the banking, capital markets, and insurance

**Globalization** in India had a favorable **impact** on the overall growth rate of the economy. This is major improvement given that India's growth rate in the 1970's was very low at 3% and GDP growth in **countries** like Brazil, Indonesia, Korea, and Mexico was more than twice that of India. Though India's average annual growth rate almost doubled in the eighties to 5.9%, it was still lower than the Growth rate in China, Korea and Indonesia. The pick up in GDP growth has helped improve India's global position. Consequently India's position in the global economy has improved from the 8<sup>th</sup> position in 1991 to 4<sup>th</sup> place in 2001; when GDP is calculated on a purchasing power parity basis. During 1991-92 the first year of Rao's reforms program, The Indian economy grew by 0.9% only. However the Gross Domestic Product (GDP) growth accelerated to 5.3 % in 1992-93, and 6.2% 1993- 94. A growth rate of above 8% was an achievement by the Indian economy during the year 2003-04.

Due to **globalization** not only the GDP has increased but also the direction of growth in the sectors has also been changed. Earlier the maximum part of the GDP in the economy was generated from the primary sector but now the service industry is devoting the maximum part of the GDP. The service sector remains the growth driver of the economy with a contribution of more than 57 per cent of GDP. India is ranked 18<sup>th</sup> among the world's leading exporters of services with a share of 1.3 per cent in world exports. The services sector is expected to benefit from the ongoing liberalization of the foreign investment regime into the sector. Software and the ITES-BPO sectors have recorded an exponential growth in recent years.

### **Impact of LPG on Indian Economy**

Indian government under its policy of liberalization introduced the phase of globalization in its economy which aims at to set up global village by unification of Indian economy with rest of the world. Globalization involves increasing interaction among national economic systems, more integrated financial market, economies, trade, and higher factor mobility, free flow of technology and spread of knowledge throughout the world.

Globalization would eventually, mean being able to manufacture in the most cost effective way anywhere in the world.

Globalization is a boon as well as bane for India because it has mixed impact on Indian economy, social and cultural aspect of India.

#### **Positive impact of globalization in Indian economy:**

- a. It helps to improve allocation efficiency of our scare resources.
- b. It helps to reduce capital-output ratio by increasing labour productivity.
- c. Globalization has reorganized & restructured Indian economy, i.e., production, consumption and distribution systems.
- d. Due to globalization, the rate of industrial growth speeded-up.
- e. It brought Employment Avenue for large unemployed youth.
- f. Globalization has brought consumerism in India. Cheaper and high quality consumer goods and services has been changed the meaning of their (Indian) life.
- g. Present financial market up-swing, expansion of banking and insurance facility is definitely the effect of globalization.
- h. International confidence in India has been restored. This is indicated by swelling foreign direct and portfolio investment. FDIs were just 155 million dollars in 1991. They increased to around 3200 million dollars in 2004-05.
- i. Our foreign currency reserves which had fallen to barely one billion dollars in June 1991. Substantially to about 14 billion dollars in March 2005.

This benefit list may be endless for India but we should not overlook the dusty side of globalization in India that's why it is also known as bane for India. Because:-

- a) Globalization retarded thousands of Indian companies. And few are lost even lost their identities.
- b) Globalization has brought unnecessary competition or rough competition among the producer and consumer.
- c) Present environmental challenges in India are the outcome of globalization. Global companies disrespect all environmental norms and overlook the sustainability of Indian economy. They only target over there profit and economic motive.
- d) Indian cultural heritage is forcing or session threat of it survival as foreign culture is spreading line epidemic among the youth.

### **Lesson for Indian economy with respect to globalization**

No one can overlook the presence of globalization in Indian economy, social and cultural sphere of Indians. What ever milestone India achieved till today at national and International Avenue that definitely due to the positive impact of globalization. Today a major section of Indians led a very handsome lifestyle with all basic and modern amenities by blessing of globalization. The concept of consumerism comes in our trade industry and commerce as Indian today freely interact with world people and they like to copying there lifestyle, food habit and some time there culture.

But if we analyze the effect of globalization consciously we will see, globalization in India was violated our basic fundamentals of government, directive of state policies and overall constitutional guidelines up to some extent. If we asses overall outcomes of globalization till today then we can say globalization is not a boon but bane for India. Globalization was an immediate solution for central government as the country engulfing by poverty, deterioration of quality of life index, decline trend of agricultural and industrial productivity, per capita income, slow rate of industrialization and urbanization, poor infrastructure facility, continuous foreign pressure on India to sign in GATT and become a member of WTO and other international economic order. For overall solutions of above said problems India had no choice but globalize her self. The major draw back, what I feel, was its timing. It was introduce in India without proper HOMEWORK done by government to minimize its negative effects and proper protective measures. As a result our domestic trade Industry and commerce retarded day by day with stiff competitions with foreign players in India.