

**GLOBALIZATION AND ITS IMPACT ON INDIAN ECONOMY:  
PROBLEMS AND PROSPECTS:**

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(Abstract)

*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 China, India, and other countries that were poor 20 years ago, has been a positive aspect of Liberalization Privatization and Globalization (LPG). But Globalization has also generated significant international opposition over concerns that it has increased inequality and environmental degradation. There is a need to study the impact of globalization on developing countries from the viewpoint of inward foreign direct investment. Attention should also be focused on the role which some developing countries, particularly from parts of Asia and Latin America, are playing as initiators of globalization through their own MNCs. India opened up the economy in the early nineties following a major crisis that led by a foreign exchange crunch that dragged the economy close to defaulting on loans. The response was a slew of Domestic and external sector policy measures partly prompted by the immediate needs and partly by the demand of the multilateral organizations. The new policy regime radically pushed forward in favour of a more open and market oriented economy. This paper explores the contours of the on-going process of globalization Liberalization and privatization. Throughout this paper, there is an underlying focus on the impact of LPG on Indian economy. It also comments on impact of LPG on India.*

**Keywords:** Multi National Companies, liberalization, privatization

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**Introduction:**

Globalization describes a process by which regional economies, societies, and cultures have become integrated through a global network of communication, transportation, and trade. The term is sometimes used to refer specifically to economic globalization: the integration of national economies into the international economy through trade, foreign direct investment, capital flows, migration, and the spread of technology. Globalization as a spatial integration in the sphere of social relations when he said “Globalization can be defined as the intensification of worldwide social relations which link distant locations in such a way that local happenings are shaped by events occurring many miles away and vice – versa.” Globalization generally means integrating economy of our nation with the world economy. 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. Globalization had its impact on various sectors including Agricultural, Industrial, Financial, Health sector and many others. It was only after the LPG policy i.e. Liberalization, Privatization and Globalization launched by the then Finance Minister Man Mohan Singh that India saw its development in various sectors.

**Advent of New Economic Policy**

After suffering a huge financial and economic crisis Dr. Man Mohan Singh brought a new policy which is known as Liberalization, Privatization and Globalization Policy (LPG Policy) also known as New Economic Policy, 1991 as it was a measure to come out of the crisis that was going on at that time. The following measures were taken to liberalize and globalize the economy:

1. Devaluation: To solve the balance of payment problem Indian currency were devaluated by 18 to 19%.
2. Disinvestment: To make the LPG model smooth many of the public sectors were sold to the private sector.

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3. Allowing Foreign Direct Investment (FDI): FDI was allowed in a wide range of sectors such as Insurance (26%), defense industries (26%) etc.

4. NRI Scheme: The facilities which were available to foreign investors were also given to NRI's.

The New Economic Policy (NEP-1991) introduced changes in the areas of trade policies, monetary & financial policies, fiscal & budgetary policies, and pricing & institutional reforms. The salient features of NEP-1991 are (i) liberalization (internal and external), (ii) extending privatization, (iii) redirecting scarce Public Sector Resources to Areas where the private sector is unlikely to enter, (iv) globalization of economy, and (v) market friendly state.

Consequences of Globalization:

The implications of globalisation for a national economy are many. Globalisation has intensified interdependence and competition between economies in the world market. This is reflected in Interdependence in regard to trading in goods and services and in movement of capital. As a result domestic economic developments are not determined entirely by domestic policies and market conditions. Rather, they are influenced by both domestic and international policies and economic conditions. It is thus clear that a globalising economy, while formulating and evaluating its domestic policy cannot afford to ignore the possible actions and reactions of policies and developments in the rest of the world. This constrained the policy option available to the government which implies loss of policy autonomy to some extent, in decision-making at the national level.

Now for Further analysis we take up Impact of Globalization on various sector of Indian Economy.

Impact of Globalization on Agricultural Sector:

Agricultural Sector is the mainstay of the rural Indian economy around which socio-economic privileges and deprivations revolve and any change in its structure is likely to have a corresponding impact on the existing pattern of Social equity. The liberalization of India's economy was adopted by India in

1991. Facing a severe economic crisis, India approached the IMF for a loan, and the IMF granted what is called a ‘structural adjustment’ loan, which is a loan with certain conditions attached which relate to a structural change in the economy. Essentially, the reforms sought to gradually phase out government control of the market (liberalization), privatize public sector organizations (privatization), and reduce export subsidies and import barriers to enable free trade (globalization). Globalization has helped in:

- Raising living standards,
- Alleviating poverty,
- Assuring food security,
- Generating buoyant market for expansion of industry and services, and
- Making substantial contribution to the national economic growth.

Impact of Globalization on Industrial Sector:

Effects of Globalization on Indian Industry started when the government opened the country's markets to foreign investments in the early 1990s. Globalization of the Indian Industry took place in its various sectors such as steel, pharmaceutical, petroleum, chemical, textile, cement, retail, and BPO.

Globalization means the dismantling of trade barriers between nations and the integration of the nations economies through financial flow, trade in goods and services, and corporate investments between nations. Globalization has increased across the world in recent years due to the fast progress that has been made in the field of technology especially in communications and transport. The government of India made changes in its economic policy in 1991 by which it allowed direct foreign investments in the country. The benefits of the effects of globalization in the Indian Industry are that many foreign companies set up industries in India, especially in the pharmaceutical, BPO, petroleum, manufacturing, and chemical sectors and this helped to provide employment to many people in the country. This helped reduce the level of unemployment and poverty in the country. Also the benefit of the Effects of Globalization on Indian Industry are that the foreign companies brought in highly advanced

technology with them and this helped to make the Indian Industry more technologically advanced.

The negative Effects of Globalization on Indian Industry are that with the coming of technology the number of labor required decreased and this resulted in many people being removed from their jobs. This happened mainly in the pharmaceutical, chemical, manufacturing, and cement industries.

Impact on Financial Sector:

Reforms of the financial sector constitute the most important component of India's programme towards economic liberalization. The recent economic liberalization measures have opened the door to foreign competitors to enter into our domestic market. Innovation has become a must for survival. Financial intermediaries have come out of their traditional approach and they are ready to assume more credit risks. As a consequence, many innovations have taken place in the global financial sectors which have its own impact on the domestic sector also. The emergences of various financial institutions and regulatory bodies have transformed the financial services sector from being a conservative industry to a very dynamic one. In this process this sector is facing a number of challenges. In this changed context, the financial services industry in India has to play a very positive and dynamic role in the years to come by offering many innovative products to suit the varied requirements of the millions of prospective investors spread throughout the country. Reforms of the financial sector constitute the most important component of India's programme towards economic liberalization.

Growth in financial services (comprising banking, insurance, real estate and business services), after dipping to 5.6% in 2003-04 bounced back to 8.7% in 2004-05 and 10.9% in 2005-06. The momentum has been maintained with a growth of 11.1% in 2006-07. Because of Globalization, the financial services industry is in a period of transition. Market shifts, competition, and technological developments are ushering in unprecedented changes in the global financial services industry.

**Impact on Export and Import:**

India's Export and Import in the year 2001-02 was to the extent of 32,572 and 38,362 million respectively. Many Indian companies have started becoming respectable players in the International scene. Agriculture exports account for about 13 to 18% of total annual of annual export of the country. In 2000-01 Agricultural products valued at more than US \$ 6million were exported from the country 23% of which was contributed by the marine products alone. Marine products in recent years have emerged as the single largest contributor to the total agricultural export from the country accounting for over one fifth of the total agricultural exports. Cereals (mostly basmati rice and non-basmati rice), oil seeds, tea and coffee are the other prominent products each of which accounts fro nearly 5 to 10% of the countries total agricultural exports.

**Advantages of Globalization:**

- There is an International market for companies and for consumers there is a wider range of products to choose from.
- Increase in flow of investments from developed countries to developing countries, which can be used for economic reconstruction.
- Greater and faster flow of information between countries and greater cultural interaction has helped to overcome cultural barriers.
- Technological development has resulted in reverse brain drain in developing countries.

**Demerits of Globalization (Challenges):**

- The outsourcing of jobs to developing countries has resulted in loss of jobs in developed countries.
- There is a greater threat of spread of communicable diseases.
- There is an underlying threat of multinational corporations with immense power ruling the globe.
- For smaller developing nations at the receiving end, it could indirectly lead to a subtle form of colonization.

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· The number of rural landless families increased from 35 % in 1987 to 45 % in 1999, further to 55% in 2005. The farmers are destined to die of starvation or suicide.

A Comparison with Other Developing Countries:

Consider global trade – India's share of world merchandise exports increased from .05% to .07% over the past 20 years. Over the same period China's share has tripled to almost 4%.

India's share of global trade is similar to that of the Philippines an economy 6 times smaller according to IMF estimates.

Over the past decade FDI flows into India have averaged around 0.5% of GDP against 5% for China and 5.5% for Brazil. FDI inflows to China now exceed US \$ 50 billion annually. It is only US \$ 4 billion in the case of India.

Conclusion:

India gained highly from the LPG model as its GDP increased to 9.7% in 2007-2008. In respect of market capitalization, India ranks fourth in the world. But even after globalization, condition of agriculture has not improved. The share of agriculture in the GDP is only 17%. The number of landless families has increased and farmers are still committing suicide. But seeing the positive effects of globalization, it can be said that very soon India will overcome these hurdles too and march strongly on its path of development. The lesson of recent experience is that a country must carefully choose a combination of policies that best enables it to take the opportunity - while avoiding the pitfalls. 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 since then, leading to the shift of focus 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. India, which is now the fourth largest economy in terms of purchasing power parity, may overtake Japan and become third major economic power within 10 years. To conclude we can say that the modernization that we see around us in our daily life is a contribution of Globalization. Globalization has both positive and as well as negative impacts on various sectors of Indian Economy. So

Globalization has taken us a long way from 1991 which has resultant in the advancement our country

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