



## Globalization and Its Effects on Indian Economy

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**ABSTRACT**

The word globalization is derived from globalize which refers to the emergence of an international network of an economic system. Globalization was adopted by Government of India during 1990-91 when Indian Economy was in a worst position. It was, however, adopted not as a solution to deteriorating Indian economy but to enable itself to get further foreign exchange loans from World Bank because foreign exchange reserves of India were reduced to mere 3 weeks outflow. To rectify its ailing financial health, Government of India decided to go for privatization & liberalization of its economy. These decisions had immediate positive effect. However, globalization has proved to be a double edged weapon. It helped India temporarily to meet its emergent need of foreign exchange but it has caused some permanent damage to Indian Economic system.

### KEYWORDS

Privatization, Liberalization, Current Account Deficits, Disinvestment, Western Culture.

### INTRODUCTION

The word globalization is derived from globalize which refers to the emergence of an international network of an economic system. The scholars defined, it in their own way, **Roland Robertson**, professor of sociology defined the term in 1992 as "Compression of the World and the intensification of the consciousness of the World as a Whole. According to **Giddens** "Globalization can thus be defined as the intensification of worldwide social relations which link distant localities in such a way that local happening are shaped by events occurring many miles away and vice-versa". The most cited definition of globalization is the one given by **David Held et al** "Although in its simplistic sense globalization refers to the widening, deepening, and speeding up of global interconnection, such a definition begs further elaboration—globalization can be located on a continuum with the local, national and regional. At one end of the continuum lie social and economic relations and networks which crystallize on the wider scale of regional and global interactions. The world today has been transformed into a global village. Different countries and nations are closely connected with and interact on each other with their existence.

Different countries have been doing trade with one another, for thousands of years. But it got a tremendous boost in last about two decades due to the policies of International Monetary Fund, World Bank and World Trade Organization who have been working on the agenda of developed countries like USA and others European countries. They practically forced underdeveloped countries to adopt full throttle globalization by opening up their local markets to world trade by reducing artificial barriers to such trade. Development of advanced means of communication and transport, internationalization of financial markets and unprecedented mobility of goods, capital, data and manpower have further given boost to the recent process of globalization.

The economy is the main arena in which the process of globalization is at work "Economic Globalization is the increasing economic interdependence of national economies across the World through cross border movement of goods, services, technology and capital, leading to the emergence of a global market place or a single world market. The economic globalization, implemented through neo-liberal economic reforms, has four basic components. They are : (1) Free trade, (2) Unhindered free movement of capital. (3) Creation of environment for free flow of technology and (4) Creation of environment for free movement of labour. Thus as **Sundaram**

written, "Globalization has to do primarily with expansion of trade and investment on a global scale. It has to do with capital and financial markets which have expanded in tandem and whose expansion has been facilitated by introduction of new financial instruments besides stocks such as Securities, Bonds, Derivatives etc. – besides there is the trading in currency itself, which has nothing to do with production and employment – nothing at all to do with improving the living conditions of the people in countries of the globe."

### EFFECTS OF GLOBALIZATION ON INDIAN ECONOMY –

Beside the oil crisis and various other factors had created financial emergency in India around 1990 when foreign currency reserves were reduced to only 3 weeks outflow. Major factors for such a situation were stagnant economy, mounting fiscal deficits, current account deficits in international trade and high rate of inflation during the preceding many years. Such a situation demanded some drastic steps including major structural changes in Indian Economic policies. At this point, Indian Government had no option but to accept the precondition of joining stream of Globalization so as to be able to avail loan/grant facility from World Bank. It agreed to reduce quantitative restrictions imposed through licensing system. It also agreed to reduce custom duties in phases to levels acceptable to WTO. Custom tariffs were reduced in phases over the decade 1991-2001 from weighted average of about 70% to about 30%. Realizing that Globalization itself, may not help the ailing Indian economy, the then Government of India decided to go for privatization of its economy and to adopt liberalized economic policies. Some steps towards these structural changes were:-

- ⇒ Abolition of Industrial licensing Policy.
- ⇒ Free access to foreign technology
- ⇒ Abolition of Government control over capital issues and creation of SEBI to encourage equity culture in India.
- ⇒ Reduction in industries reserved for public sector.
- ⇒ Decision to go for partial disinvestment in public sector enterprises.

### PROS OF GLOBALIZATION

The process of globalization had a dramatic effect on Indian Economy which responded swiftly and positively to these following measures.

1. Fiscal deficit immediately came down to 5.9% in 1991-92.
2. The real GDP increased at an annual rate of about 6%.
3. Many new companies were formed by Indian entrepreneurs.

- neurs across different industrial segments in view of liberalized economic policies announced by Government.
4. A large number of job opportunities increased in India.
  5. Sharp growth in middle Income Group which fuelled domestic consumption.
  6. It helped in faster developments in telecommunication, roads, ports, airports, Insurance and other major sectors.
  7. It Increased FDI and FII.
  8. In recent times Indian PM Modi invited foreign companies to help in "Make in India" mission whose results are good at initial stage as Japan and China started to find ways for investment in India.
  9. Benefits for consumers are lower prices of goods and a wide range of goods available to choose from.

#### CONS OF GLOBALIZATION –

All above improvements in Indian Economy were largely due to changed Economic policies of Government of India. Globalization had only indirect contribution, if any, in above improvements. However, there are some other developments-which could not be happy developments.

#### Such developments are:

- A. Direct effect of Globalization is intensified interdependence of Indian economy and world economy. As a result, it has become very difficult for Government of India to insulate its economy from World Economy. Government is no more the sole driver of Indian Economy which is influenced more and more by international policies and international economic conditions. Direction and depth of all economic activities in India is now governed largely by global Economy.
- B. Globalization has been completely eroding the spirit of 'Swadeshi movement' run by Mahatma Gandhi, father of Nation. Large scale migrations from India and easy availability of foreign products have increased the exposure of Indian population to high quality and reputed foreign products/brands. Indians now prefer global brands over Indian brands. Globalization has adversely affected many established companies which had failed to face competition from established global players.
- C. Steep and fast reductions in custom duties have snatched large part of Indian market from Indian Industry and passed it on to imports from established global players. New opportunities for exports by Indian Industry opened up by globalization are no comparison to the loss it has suffered on account of reduction in demand of its products in local market of one billion people.
- D. Process of Capital intensive from labour intensive adopted global technologies and automatic machinery. But this has resulted in high rate of unemployment in India which is becoming biggest challenge for Indian Economy and the Government today.
- E. We may call globalization as a double edged weapon who helped Indian consumers to enjoy all high Quality global brands. On other hand, it helped Government of India to tide over its serious foreign exchange problem, even

though temporarily by getting loan from World Bank. But, it has been at the cost of decontrol of Indian Government over its economy and at the cost of local Industry.

#### CONCLUSION

Globalization is not only useless but dangerous too for Indian Economy. It gave temporary relief to Indian Government to tide over its serious foreign exchange situation during 1990-91 by enabling it to get loan from World Bank. But, as a by-product, it has caused some permanent damage to Indian Economic system. The expansion of capital and concentration of wealth in the hands of few is leading to expansion and growth of poverty on a large scale. The growing poverty and shrinking of purchasing power puts economies under stress. The on-going economic crisis which has lasted for a decade and is still going on is the telling proof of this observation.

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