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## Globalization and its effect on Indian Economy

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### Abstract:

The term globalization generally means to integrate the economies of the world through unrepressed trade and financial flows through mutual exchange of technologies and knowledge. Globalization has played a major role in export-led growth that leads to enlargement of job markets in India. During 1990-91 Indian economy has experienced major policy change. The major economic reform known as Liberalization, Globalization and Privatization (LPG) aimed to make Indian economy a globally competitive and faster growing economy. Globalization has a tremendous impact on the overall economic development of almost all the sectors of the economy. This paper mainly focuses on the impact of India's foreign trade and Indian economy.

**Keywords:** Globalization, Liberalization, Privatization and Indian Economy.

### Introduction:

The world has made an enormous economic progress in the latter half of the twentieth century. Over the second half of the twentieth century GDP has increased by twelve folds. A tremendous growth has been observed in the developing world as compared with stagnation and underdevelopment in the colonial era during the first half of the twentieth century. Unfortunately development has been uneven between and within the countries. At this point of time the pattern of development is such that it has widened the gap between the industrialized countries and the developing countries.

Undoubtedly the globalization has made the world more equal but there are opposite scenario for many developing nations those who experience income inequality (World Economic and Social Survey 2013). On one hand globalization is considered as multidimensional phenomenon which has promoted the economic development. In India several measures were initiated by liberalization, privatization and globalization such as:

- Most of the Public Sector Undertakings (PSU) were sold to private sector to make globalization a smooth process.

- The facilities and the policies for FDI which were available to foreign investors and companies were now available to NRI's (Non resident Indians) as well.
- Monopolies and Restrictive Trade Practices (MRTP) Act was abolished. It was mandatory for investors to get approval from government.
- Devaluation of the currency was another major step taken to resolve the Balance of Payment crises.
- Dismantling the industrial licensing regime at present, only few industries are under compulsory licensing regime, on the account of environmental safety and strategic consideration.
- Financial sector reforms in banking sector, insurance sector and capital markets including the deregulation of interest rates, strong supervisory and regulation system and the introduction of private/foreign sector.

Before 1991, India was largely isolated from the world market, to achieve self-reliance. Foreign trade was subject to export taxes, import tariffs and quantitative restrictions, where as FDI was also restricted by upper limit equity participation. The restrictions ensured that on an average FDI inflow was \$200million annually between 1985 to 1991. A large percentage of capital flows consist of foreign and commercial borrowing and deposits of Non- Resident Indians. The technological and trade globalization has significantly reduced income inequality and financial globalization has increase income inequality in selected Asian countries (Bukhari and Munir 2016). But many studies have strongly believed that the net effect of globalization on quality of life is positive (Thorbeche and Eigen-Zucchi ,2002 and Dreher, 2006).

### **Literature review:**

**Lindert and Williamson(2001)** this study concludes that the globalization has reduced rising inequality between participating nations the nations who gained lot from globalization were generally the poor ones who reformed their policies to exploit it. The nations those have lost from the globalization have been excluded, non-participants.

**Bukhari and Munir(2016)** this study examines the impact of globalization of income inequality separately in three different modes i.e. trade globalization, financial globalization and technological globalization. It has been concluded that globalization has significantly reduced income inequality and financial globalization has increased income inequality in the selected Asian countries. The study has also showed that GDP per capita and its square is significant where the former is positive and later has negative.

**Nayyar (2006)** this study was focused to redesign and introduce different perspective, if development is to bring an improvement in the well being of people. The study has examine the outdated perspectives of the development in changed international context. Globalization has reduced

**Park (2017)** this study concludes that education is also the one of the factors that influences inequality. The education level and education inequality promotes income inequality in Asian and Pacific areas. The study

analyzed from the panel data that the higher level of schooling of the population has reduced income inequality where as dispersion from education has increased income inequality.

**Raghunath (2017)** his study has concluded that it is only government who can get maximum benefit from globalization. The policies adopted by Russia and China to utilize Foreign Direct Investment (FDI) so that they could elevate the masses above the poverty line, similar policies need to be adopted by India to overcome poverty. So that everyone would be benefited through globalization and the theory of trickle-down effect should come true in India.

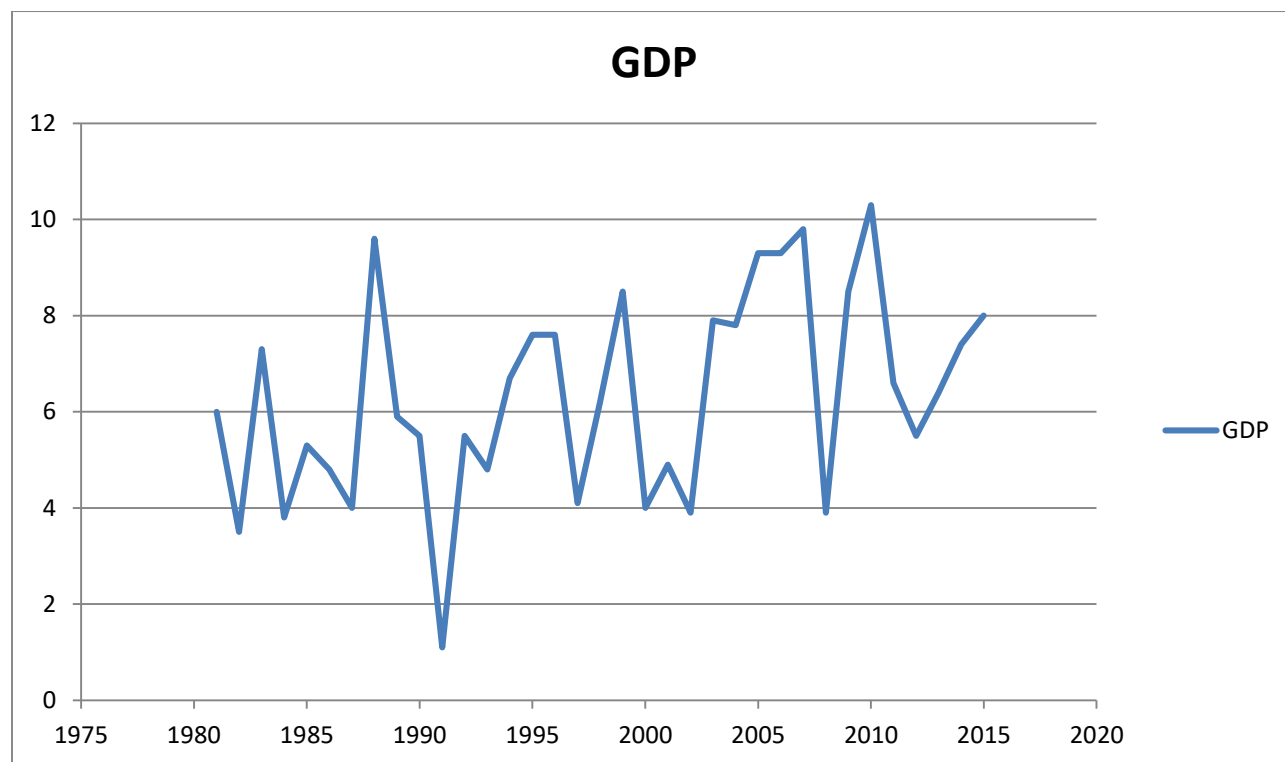
**Kamble (2013)** the author in his study has identified the key links between the human rights and environment; globalization and environment. According to him, the more closely related environment and trade policies are the more sustainable the economic growth will be. The globalization can be restrain for the benefit of the environment. The author also concludes that the globalization has liberalized the trade policies which has caused the environment degradation. Human rights and environment goes hand in hand as environment degrades it violates numerous human resources.

### **Methodology:**

This study is based on secondary data. The data used for the study is obtained from various periodicals, books, published papers, journals, internet websites, RBI annual report, statistical yearbook 2016 and 2018, The World Bank and India's statistical handbook. The time period used in proposed study will be ten years before globalization (1981-1990) and after globalization (1991-2015). Several relevant statistical tools will be used to analyze data.

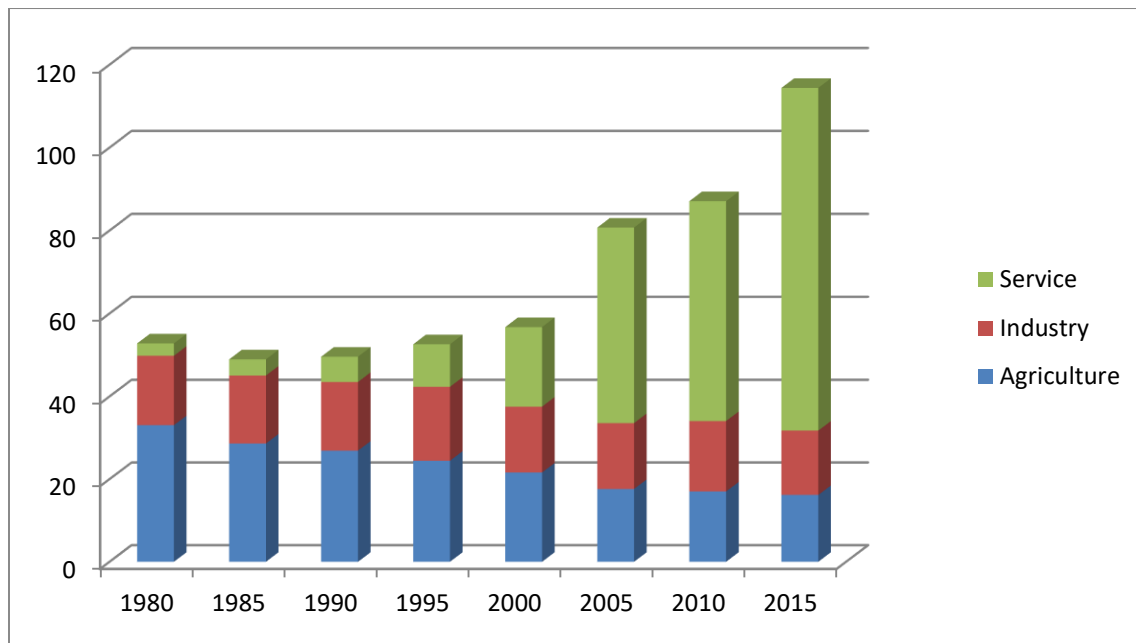
### **Objectives:**

1. To analyze sector wise growth of economy before globalization and after globalization.
2. To analyze the trade balances.
3. To determine the FDI inflow in the Indian economy.

**Figure 1: GDP growth rate of India from 1980 to 2015.**

Source: The World Bank.

The above figure1 has shown that Globalization in India had positive impact on overall growth rate of the economy. The GDP growth rate is favorable and has improved India's position globally after reform. India has grown at an average rate of 9 percent annually.

**Figure 2: Different sector's composition of GDP in India**

Source: The World Bank

It is clear from the above figure that the GDP growth in the service sector is tremendously high. After globalization the service sector has shown much higher growth than agricultural and industrial sector. Initially the maximum part of GDP in the economy was generated from agriculture sector but now the service sector is providing maximum part of GDP. Agricultural sector has observed a downfall. India needs to specialize in its agriculture and industrial sector so that in upcoming years share of agriculture and industry in GDP could increase.

**Table 1: Exports, Imports and Trade Balances (in US million \$) of India from 1980-81 to 2015-16.**

Year	Exports	Imports	Trade Balance
1980-81	8484	15866	-7382
1985-86	8904	16066	-7162
1990-91	18145	24072	-5927
1995-96	31699	36592	-4893
2000-01	44560	50536	-5976
2005-06	100353	140862	-40509
2010-11	251136	369769	-118633
2015-16	220408	350029	-129621

Source: Handbook of Statistics 2018-19, RBI and Statistical Year Book 2019, Dept. of Economic And Social Affairs.

During pre reform period the Imports and Exports were increasing at a very low pace but after the reform of 1991 there was tremendous increase observed in Imports and Exports of the country.

**Table 2: Net FDI Inflows (in million US\$) in India from 1980 to 2015.**

Year	1980-81	1985-90	1990-91	1995-96	2000-01	2005-06	2010-11	2015-16
<b>FDI inflow (in million \$)</b>	0.042	0.046	0.074	0.595	0.765	0.886	1.635	2.092

Source: The World Bank.

The above table shows, the FDI inflow in India during 1980-81 was only \$ 0.042 billion but after globalization in the year 1995-96 it increased to \$ 0.595 billion and by the year 2015-16 it reached to \$2.092 billion which had showed a huge inflow of FDI in India. As a result India became the world's largest recipient.

### Conclusion and Suggestions:

Main findings of the paper is that India's economic growth has received a strong stimulus during post reform period. After 1991 India's GDP has increased due to which the India's position in global economy has improved. The data has shown improvement in various sectors of Indian economy. The exports and imports have positively increased. But the trade balances are in negative terms. If it is compared to other developing countries it's share in the international trade is very low. To overcome from all this issues India need to adopt another economic reform with a long term vision so that it can become a global economic power in few decades. India's agriculture sector should allow maximum FDI inflow so that the share of agriculture sector in GDP could increase. Globalization has also created inequality in income distribution. Richer section of the society is getting richer day by day and the poor section is starving due to hunger. This should be imposed according to their income and should be distributed among the weaker section of the society by creating more job opportunities. Government should reduce trade restrictions and provide subsidies that help to increase the volume of trade reduce income inequality. Health and education system need to be focused to improve social and physical infrastructure of the economy, to attract foreign investors. Education should be provided in such a way that the number of skilled labour could increase.

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