GLOBALIZATION AND INDIA: A REVIEW

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Abstract:

Globalization has many meanings depending on the context and on the person who is talking about. Though the precise definition of globalization is still unavailable a few definitions are worth viewing, Brainbant: says that the process of globalization not only includes opening up of world trade, development of advanced means of communication, internationalization of financial markets, growing importance of MNCs, population migrations and more generally increased mobility of persons, goods, capital, data and ideas but also infections, diseases and pollution. The term globalization refers to the integration of economies of the world through uninhibited trade and financial flows, as also through mutual exchange of technology and knowledge. Ideally, it also contains free inter-country movement of labor.

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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.

With the onset of reforms to liberalize the Indian economy in July of 1991, a new chapter has dawned for India and her billion plus population. This period of economic transition has had a tremendous impact on the overall economic development of almost all major sectors of the economy, and its effects over the last decade can hardly be overlooked. Besides, it also marks the advent of the real integration of the Indian economy into the global economy.

This era of reforms has also ushered in a remarkable change in the Indian mindset, as it deviates from the traditional values held since Independence in 1947, such as self reliance and socialistic policies of economic development, which mainly due to the inward looking restrictive form of governance, resulted in the isolation, overall backwardness and inefficiency of the economy, amongst a host of other problems. This, despite the fact that India has always had the potential to be on the fast track to prosperity.

Now that India is in the process of restructuring her economy, with aspirations of elevating herself from her present desolate position in the world, the need to speed up her economic development is even more imperative. And having witnessed the positive role that Foreign Direct Investment (FDI) has played in the rapid economic growth of most of the Southeast Asian countries and most notably China, India has embarked on an ambitious plan to emulate the successes of her neighbors to the east and is trying to sell herself as a safe and profitable destination for FDI.

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.

Historical Development

Globalization has been a historical process with ebbs and flows. 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. The growth of globalization was mainly led by the technological forces in the fields of transport and communication. 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. Most economies thought that they could thrive better under high protective walls. After World War II, all the leading countries resolved not to repeat the mistakes they had committed previously by opting for isolation. Although after 1945, there was a drive to increased integration, it took a long time to reach the Pre-World War I level. In terms of percentage of exports and imports to total output, the US could reach the pre-World War level of 11 per cent only around 1970. Most of the developing countries which gained Independence from the colonial rule in the immediate Post-World War II period followed an import substitution industrialization regime. The Soviet bloc countries were also shielded from the process of global economic integration. However, times have changed. In the last two decades, the process of globalization has proceeded with greater vigour. The former Soviet bloc countries are getting integrated with the global economy. More and more developing countries are turning towards outward oriented policy of growth. Yet, studies point out that trade and capital markets are no more globalized today than they were at the end of the 19th century. Nevertheless, 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.

Gains from Globalization: The gains from globalization can be analyzed in the context of the three types of channels of economic globalization identified earlier.

Traffic in Goods and Services

According to the standard theory, international trade leads to allocation of resources that is consistent with comparative advantage. This results in specialization which enhances productivity. It is accepted that international trade, in general, is beneficial and that restrictive trade practices impede growth. That is the reason why many of the emerging economies, which originally depended on a growth model of import substitution, have moved over to a policy of outward orientation. However, in relation to trade in goods and services, there is one major concern. Emerging economies will reap the benefits of international trade only if they reach the full potential of their resource availability. This will probably require time. That is why international trade agreements make exceptions by allowing longer time to developing economies in terms of reduction in tariff and non-tariff barriers. "Special and differentiated treatment", as it is very often called has become an accepted principle.

Progress of Capital

Capital flows across countries have played an important role in enhancing the production base. This was very much true in 19th and 20th centuries. Capital mobility enables the total savings of the world to be distributed among countries which have the highest investment potential. Under these circumstances, one country's growth is not constrained by its own domestic savings. The inflow of foreign capital has played a significant role in the development in the recent period of the East Asian countries. The current account deficit of some of these countries had exceeded 5 per cent of the GDP in most of the period when growth was rapid. Capital flows can take either the form of foreign direct investment or portfolio investment. For developing countries the preferred alternative is foreign direct investment. Portfolio investment does not directly lead to expansion of productive capacity. It may do so, however, at one step removed. Portfolio investment can be volatile particularly in times of loss of confidence. That is why countries want to put restrictions on portfolio investment. However, in an open system such restrictions cannot work easily.

Financial current

The rapid development of the capital market has been one of the important features of the current process of globalization. While the growth in capital and foreign exchange markets have facilitated the transfer of resources across borders, the gross turnover in foreign exchange markets has been extremely large. It is estimated that the gross turnover is around $ 1.5 trillion per day worldwide (Frankel, 2000). This is of the order of hundred times greater than the volume of trade in goods and services. Currency trade has become an end in itself. The expansion in foreign exchange markets and capital markets is a necessary pre-requisite for international transfer of capital. However, the volatility in the foreign exchange market and the ease with which funds can be withdrawn from countries have created often times panic situations. The most recent example of this was the East Asian crisis. Contagion of financial crises is a worrying phenomenon. When one country faces a crisis, it affects others. It is not as if financial crises are solely caused by foreign exchange traders. What the financial markets tend to do is to exaggerate weaknesses. Herd instinct is not uncommon in financial markets. When an economy becomes more open to capital and financial flows, there is even greater compulsion to ensure that factors relating to macro-economic stability are not ignored. This is a lesson all developing countries have to learn from East Asian crisis. As one commentator aptly said "The trigger was sentiment, but vulnerability was due to fundamentals".

India's position

At the outset it must be mentioned that opting out of globalization is not a viable choice. There are at present 149 members in the World Trade Organisation (WTO). Some 25 countries are waiting to join the WTO. China has recently been admitted as a member. What is needed is to evolve an appropriate framework to wrest maximum benefits out of international trade and investment. This framework should include (a) making explicit the list of demands that India would like to make on the multilateral trade system, and (b) steps that India should take to realize the full potential from globalization.

Battle by India

The second set of measures that should form part of the action plan must relate to strengthening India's position in international trade. India has many strengths, which several developing countries lack. In that sense, India is different and is in a stronger position to gain from

international trade and investment. India's rise to the top of the IT industry in the world is a reflection of the abundance of skilled manpower in our country. It is, therefore, in India's interest to ensure that there is a greater freedom of movement of skilled manpower. At the same time, we should attempt to take all efforts to ensure that we continue to remain a frontline country in the area of skilled manpower. India can attract greater foreign investment, if we can accelerate our growth with stability. Stability, in this context, means reasonable balance on the fiscal and external accounts. We must maintain a competitive environment domestically so that we can take full advantage of wider market access. We must make good use of the extended time given to developing countries to dismantle trade barriers. Wherever legislations are required to protect sectors like agriculture, they need to be enacted quickly. In fact, we had taken a long time to pass the Protection of Plant Varieties and Farmers' Rights Act. We must also be active in ensuring that our firms make effective use of the new patent rights. South Korea has been able to file in recent years as many as 5000 patent applications in the United States whereas in 1986, the country filed only 162. China has also been very active in this area. We need a truly active agency in India to encourage Indian firms to file patent applications. In effect, we must build the complementary institutions necessary for maximizing the benefits from international trade and investment.

Indian industry has a right to demand that the macro economic policy environment should be conducive to rapid economic growth. The configuration of policy decisions in the recent period has been attempting to do that. It is, however, time for Indian industrial units to recognize that the challenges of the new century demand greater action at the enterprise level. They have to learn to swim in the tempestuous waters of competition and away from the protected waters of the swimming pools. India is no longer a country producing goods and services for the domestic market alone. Indian firms are becoming and have to become global players. At the minimum, they must be able to meet global competition. The search for identifying new competitive advantages must begin earnestly. India's dominance in Information Technology (IT) is only partly by blueprint. However, it must be said to the credit of policy makers that once the potential in this area was discovered, the policy environment became strongly industry open.

India's advantage, actual and that which can be realized in a short span of time must be drawn up. Of course, in a number of cases, it will require building plants on a global scale. But, this need not necessarily be so in all cases. In fact the advent of IT is modifying the industrial

structure. The revolution in telecommunications and IT is simultaneously creating a huge single market economy, while making the parts smaller and more powerful. What we need today is a road map for the Indian industry. It must delineate the path different industries must take to achieve productivity and efficiency levels comparable to the best in the world.

Globalization, in a fundamental sense, is not a new phenomenon. Its roots extend farther and deeper than the visible part of the plant. It is as old as history, starting with the great migrations of people across the great landmasses. Only recent developments in computer and communication technologies have accelerated the process of integration, with geographic distances becoming less of a factor. Is this 'end of geography' a boon or a bane? Borders have become porous and the sky is open. With modern technologies which do not recognize geography, it is not possible to hold back ideas either in the political, economic or cultural spheres. Each country must prepare itself to meet the new challenges so that it is not being bypassed by this huge wave of technological and institutional changes.

The key to India's growth lies in improving productivity and efficiency. This has to permeate all walks of our life. Contrary to the general impression, the natural resources of our country are not large. In a capital-scarce economy like ours, efficient utilization of our capacity becomes even more critical. For all of these things to happen, we need well-trained and highly skilled people. In the world of today, competition in any field is competition in knowledge. That is why we need to build institutions of excellence. I am, therefore, happy that the Ahmedabad Management Association, besides other functions, is also focusing on excellence in education. Increased productivity flowing from improved skills is the real answer to globalization.

Impact of Impact of New Economic Policy on Industry on Industry

- However, the environment has changed drastically since New Economic Policies were initiated in 1990s. Globalization has led to opening up of markets leading to intense competition. .
- Raw materials expenses to net sales lower for foreign companies by 5 per cent vis-à-vis Indian companies. Cost of production to net sales too lower for foreign companies.
- On the profitability side, Profit after Tax (PAT) to capital employed was 5 per cent higher for foreign companies.

- ROCE for the Indian firms fell from 6.3% in 1993-94 to 1.6 in 1999-2000. Foreign firms' ROCE too fell from 10 to 7 per cent in the same period. However there has been increasing gap between the two set of firms…

CONCLUSION:

India accounts for 16.7 per cent of world's population whereas it has only 2.0 per cent of world's land area. While China's population is 30 per cent higher than that of India's, it has a land area which is three times that of India. In fact, from the point of view of long-range sustainability, the need for greater efficiency in the management of natural resources like land, water and minerals has become urgent.There is greater competition in domestic market with imports of high quality goods from developed countries and low priced goods from developing countries. Competition has further intensified with the arrival of MNCs as the restrictions on FDI have been removed.

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