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Globalization in India

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Abstract

Globalization is a significant factor in a competitive world that has opened up new and tremendous opportunities for integrating economies, industries, markets, cultures and policy-making around the world. It is referred to as a strategy of economic development wherein the borders of the country are opened for the movement of commodities, services, capital, finance, labor, technology, ideas and information. In the era of technological advancement, several countries have united and transformed through the process of globalization. To benefit from globalization, India adopted a liberalized economic policy in 1991 and integrated its economy with the rest of the world. India viewed globalization as opening up the economy to Foreign Direct Investment (FDI) by providing services to foreign companies that could invest in different domains of the country's economy by removing restrictions and riders on the entry of multinational corporations (MNCs). Indian companies could collaborate abroad and encourage them to set up joint ventures abroad. Globalization has also played an important role in export-led growth, leading to the expansion of the job market in India. It is now accepted as the new mantra for economic success worldwide with India and China proving it to some extent.

Keywords: *Globalization, India, Economy, World, Foreign, Trade, Market, 1991.*

Introduction

Globalization has been working to connect local products with the global market but the way it functions is purely capitalist. If anything has changed, capitalist forces are not limited to the defined territory of the particular country in which they function. But globalization has given them new wings to fly on the horizon and swim in the oceans as free markets with minimum regulation and control by the state.

Globalization is an unavoidable event in human history that has brought the world closer since initial trade and searching through the exchange of goods, products, information, jobs, knowledge and culture. Globalization is integrating the world into one huge market and providing several new opportunities with the removal of all trade barriers between countries. It takes place through three channels: trade in goods & services, the movement of capital and the flow of finance & capital. In the basic sense, the word "globalization" refers to the acceptance of liberalization of foreign exchange restrictions, open and free trading markets etc. Globalization is a series of social, economic, technological, cultural and political changes across all societal stages. As a result of globalization, the world is considered a "global village". Globalization is not a recent occurrence; it has a long history. It started thousands of years ago in the developing world when people and corporations bought and sold land across great distances. But the concept of globalization was first introduced by the Father of Economics, Adam Smith in his book "An Inquiry into the Wealth of Nations (1776)" and since then globalization has been a hotly debated topic all over the world.

The process of globalization started on a much larger scale with the emergence of capitalism as a universally dominant system in the world. This generated a powerful wave in the nineteenth century and continued through the twentieth century until the outbreak of the First World War. The pace of globalization decelerated between the First and Second World Wars. The interwar period witnessed the erection of various barriers restricting the free movement of goods and services. After World War II, all the leading countries decided not to repeat the mistakes made in the choice of insulation. After 1945, there was a drive to increase integration which took a long time to reach the pre-World War I level.

The institutional structure established immediately after the Second World War aimed to bring consistency between national policies and global objectives while ensuring predictability and stability in the world economy. This was the beginning of globalization. This led to attempts to establish an international trade organization which could not succeed completely but led to the signing of a contract for the General Agreement on Trade and Tariffs (GATT). The World Trade Organization (WTO) facilitated the success of this agreement. It should be mentioned that the GATT, WTO, International Monetary Fund (IMF) and the World Bank were also established with the purpose of reshaping the international economic order in favour of advanced countries. The IMF, World Bank and WTO are acting as marketing agents to sell "globalization" around the world. The operation of globalization is both pervasive and comprehensive.

Globalization is not a one-way process in which only one country with wealth and technology will benefit but it also provides opportunities to every player irrespective of whether they are poor or rich. Globalization reached the world's remotest corners with negligible opposition from people and governments. Every stakeholder believes in maximizing profits in one form or another. Thus, globalization has become far ahead of the choice or selection of the people and government. Globalization is the reality of a world where no nation can wait for growth and development. International interdependence is increasing, distances between nations are shrinking and all barriers-physical, political, linguistic etc. are combined. In such a scenario, no country can afford to remain insular.

Concept of Globalization

The term "global" according to Webster's dictionary means "pertaining to the world" or "universal". There is no reference to the word "global" in the dictionary. Management practitioners have coined it to denote “a process which pertains to the world or a process which is universal”. "Globalization" can also be conceptually explained as a process of economic or commercial integration of a company or country with the rest of the world.

Scholars and international organizations attempt to define globalization from their own perspectives. It can be defined as the gradual development and integration of economies and societies around the world.

Joseph Stiglitz, former Chief Economist of the World Bank and winner of the Nobel Prize for Economics in 2001, described the concept of globalization in his 2002 book, Globalization and its Discontents as "the closer integration of the countries and peoples of the world which has been brought about by the enormous reduction of costs of transportation and communication, and the breaking down of artificial barriers to the flow of goods, services, capital, knowledge and (to a lesser extent) people across borders". The European Commission defines globalization as "the process by which markets and production in different countries are becoming increasingly interdependent due to the dynamics of trade in goods and services and flows of capital and technology”.

The International Monetary Fund (IMF) defined Globalisation as “the growing economic interdependence of countries worldwide through the increasing volume and variety of cross-border transactions in goods and services and of international capital flows, and also through the more rapid and widespread diffusion of technology”.

According to the World Bank, “Globalisation” means (a) gradual abolishment of import control over all items including consumption goods (b) reducing the rate of import duty and (c) privatizing public sector enterprises.

For the last 40 years after independence, the Indian economy has been dominated by a regime of multiple controls, restrictive regulations and a wide range of state interventions. A large proportion of the national savings was appropriated by the state through various administrative and tax measures and was diverted to finance government expenses, public sector undertakings and their losses. Instead of enforcing fiscal discipline, the government was restored to adopting the soft option of printing additional notes and borrowing heavily from within the country protected by the state and insulated against external competition that prevented growth but in a world of rapidly advancing technology, India lagged a long way behind. Until the 1990s, trade and investment restrictions limited the Indian economy’s ability to globalize. Liberalization of trade, investment and financial flows was implemented in the nineties to lower barriers to competition and speed up the pace of globalization.

Introducing globalization in India is one of the most important events in its history. Before 1991, India was considered a closed economy that had very little connectivity with the rest of the world. But the challenges that India has faced since its independence were not reduced and they forced the government to take this radical action. This was a very critical time for the government to tackle the current economic crisis because it was forced to take some strong actions to allow for privatization which was restricted before 1991. Now, the world was also going through a challenging period because of the end of the Cold War and the disintegration of the erstwhile U.S.S.R. These two events directly or indirectly affected India’s strategy for its engagement with other countries and India was inclined toward the USA leaving its trusted partner Russia. The winds of globalization, liberalization and privatization (LPG) blowing around the world are naturally having their effect on India.

The Indian economy faced a major crisis in 1991 when foreign currency reserves were reduced to a mere three weeks' worth of outflows. However, it was adopted not as a solution to the deteriorating Indian economy but to enable it to get foreign exchange loans from the World Bank. To rectify its ailing financial health, the government simultaneously amended its economic policies and sought privatization and liberalization of its economy. The major thrust of this policy was to free the home market for foreign traders which was achieved through the removal of controls on industrial investment and imports, the reduction of import tariffs and the creation of a more favourable environment for attracting foreign capital. These decisions had immediate and positive effects on the country. With the start of reforms to liberalize the economy of India in July 1991, a new chapter has begun for the Indian economy and its billion-plus population. This period of economic transition has had a remarkable effect on the inclusive economic development of almost all major sectors of the economy and its effects over the last decade can hardly be overlooked. Since then, the economic performance of India has witnessed a paradigm shift from low growth to a high growth trajectory, resulting in an increase in domestic savings. The Indian economy has become more open and competitive in the global economic scenario. It also marks the beginning of the real integration of the Indian economy into the global economy.

Besides trade, Foreign Direct Investment (FDI) also increased from 1991 onward because of the globalization process. There has also been an increase in the number of foreign firms present in our country. They are well aware of the presence of a large pool of skilled brain power and the benefits that may accrue from it. The liberalization process has opened up an excellent opportunity for foreign firms to access the Indian market and has changed their mindset about the Indian economy from a poor, underdeveloped economy to an emerging market.

The various beneficial effects of globalization in the Indian economy fetched huge amounts of foreign investment into the industry, especially in the BPO, pharmaceutical, petroleum, manufacturing and chemical sectors and this facilitated the creation of employment opportunities available to many people in the country.

Measures of India Towards Globalization

The Government of India has taken the following measures to globalize the Indian economy since the early nineties:

Duty-Free Replenishment Certificate Scheme

This scheme is issued to a merchant-exporter for the import of inputs used in the manufacture of the goods without payment of basic customs duties and special additional duties. However, such inputs shall be subject to the payment of an additional customs duty equal to the excise duty at the time of import.

Duty Entitlement Passbook Scheme

Exporters who do not want to go through the licensing process are given a voluntary option under the Duty Entitlement Passbook Scheme (DEPB). This scheme aims to neutralize the effects of customs duties on the imported content of the exported products. It carried out neutralization with customs credit financing against the export product.

Import Liberalization

The lifting of licensing and quota restrictions on imported items was in line with India's World Trade Organization (WTO) obligations. The EXIM policy of 2000–2001 lifted quantitative restrictions on 714 items mainly agricultural and consumer durable and in 2001-2002 the EXIM policy announced the abolishment of quantitative restrictions on the remaining 715 items. This resulted in the removal of import restrictions which began in 1991 and was completed in 2001–2002 with the removal of all import restrictions. However, most items were less than 35% of the basic import duties. Furthermore, a countervailing duty equivalent to the domestic excise duty on products being imported may enhance this effect.

Tariff Liberalization

It has reduced the maximum import duty in India from 200 percent to 35 percent. Add a reduction in the standard rate of import duty from 50% to 25%. It reduced the import duty on capital goods from 85% to 25%.

India Brand Equity Fund Trust

The Indian Brand Equity Fund (IBEF) Trust was established on July 11, 1996. The aim of this trust is to support the brand promotion in overseas' markets of particular brands that have achieved world-class quality and performance standards. The aid from the fund is given as soft loans repayable over 5-7 years with a minimal royalty on the incremental sales of the specific brand supported by the funding given to the thrust area. The fund will also take on an international promotion drive to project India as a whole in specific production sectors and to support domestic awareness-generation programmes directed at achieving quality and high business ethics.

India Trade Promotion Organization (ITPO)

The India Trade Promotion Organization (ITPO) is India's leading trade promotion organization that makes available a wide range of services to businesses and industries to promote Indian exports. At ITPO, the promotion of trade is an exacting task, transforming the search for new frontiers and new horizons within the world of commercial dealings. IPTO's programmes are carried out in close contact with the Indian industry whose promotion it seeks to meet. The methods of trade promotion deployed include trade fairs and exhibitions in India and abroad, buyer-seller meetings and contact promotion programs and information dissemination on products and markets.

Establishment of Agricultural Export Zones

Agricultural Export Zones are visualized to provide remunerative returns to the farming community in a sustained manner through improved access to the products of the agriculture and related sectors in the international market.

The State Government is also developing a comprehensive package of services provided by all state government agencies, state agricultural universities and all institutions and agencies of the Union Government for intensive delivery in these zones. Such services would include the provision of pre/post-harvest management and operations, plant protection, processing, packaging, storage and related research & development etc. The Department of Commerce will supplement within its schemes and provisions, the efforts of state governments to facilitate such exports.

Export-Oriented Units (EOUs)

It was introduced in early 1981 as a complement to the EPZ scheme. It uses the same production method but offers a wide variety of locations, including factors such as the source of raw materials, export ports, hinterland facilities, availability of technology, presence of an industrial base and the requirement of larger land areas for the projects.

Export House, Trading Houses etc.

To recognize established exporters with a vision of building the marketing infrastructure and expertise required for export promotion. The status of such exporters as the Export House, Trading House, Star Trading House and Super Star Trading House is granted by the government. This status is given upon achieving the prescribed average export performance levels, subject to the conditions as laid down under the Export and Import Policy.

Export Processing Zones

The Export Processing Zones (EPZs) are set up as enclaves separated from the Domestic Tariff Area by fiscal barriers and are projected to offer a competitive duty-free environment for exports. There are four EPZs set up by the government in Noida (Uttar Pradesh), Chennai (Tamil Nadu), Falta (West Bengal) and Visakhapatnam (Andhra Pradesh).

Special Economic Zones

The government of India has announced the setting up of special economic zones on the model of China. SEZs would allow 100 percent FDI in all products. Total production will have to be exported from these zones.

On March 31, 2000, the government announced the creation of new Special Economic Zones (SEZs) in the country to promote exports under the Export and Import Policy. The policy allows for the establishment of SEZs in the public, private, joint or state sectors. It also stated that some of the current export processing zones would be converted into special economic zones.

Easy Norms for Foreign Direct Investment

FDI is allowed via the automatic approval route, except for a small list. In SEZs, 100 percent FDI is permitted under certain conditions. Subject to IRDA licensing requirements, foreign equity participation of up to 26% is permitted in the insurance sector. FDI is allowed in the e-commerce and telecom sectors.

Allowing Foreign Investment in India

The Indian government has liberalized the inflow norm for foreign direct investment. The government has permitted foreign institutional investors to invest in the Indian capital market. List of items extended by automatic approval of foreign equity. The government has provided many incentives to NRIs for investing in India. Indian companies may procure capital from foreign countries through "Euro Issues" and "Global Deposit Receipts".

Enactment of FEMA in Place of FERA

Removing constraints and obstacles to the entry of MNCs into India by diluting and finally scrapping restrictive laws like the Foreign Exchange and Regulation Act of 1973 (FERA). In its place, deleting the clause that restricted the entry of MNCs passed the Foreign Exchange Management Act (FEMA).

Permission for Collaboration with MNCs

The government permitted Indian companies to collaborate with foreign companies as joint ventures and in the establishment of joint ventures by Indian companies in various foreign countries.

Full Capital Account Convertibility

The Indian government allowed full convertibility of the rupee into current accounts. The ACT is cautious regarding the convertibility of rupee capital accounts in view of the Asian crisis.

Replacement of the MRTP Act with the Competition Bill 2001

The Competition Bill 2001 seeks to ensure fair competition by prohibiting trade practices that have an appreciable adverse effect on competition in the marketplace. The Bill seeks to establish a corporate body called the Competition Commission of India (CCI) to conduct competition advocacy and raise awareness of competition issues besides its primary responsibility of ensuring fair competition in the country through imposing competition laws.

It also provides for the creation of a competition fund to meet the costs realized by CCI. Some of the salient features of the bill include the prohibition of anti-competitive agreements, the prohibition of abuse of dominance and the regulation of combinations (acquisitions, mergers and amalgamations of a certain size).

Dismantling APM in the Oil Sector

The Indian government demolished the Administrative Price Mechanism (APM) in the oil sector. Oil pool accounts were also closed down. Now, oil prices are based on market conditions.

These economic reforms are generally known as Liberalization, Privatization and Globalization (LPG). The aim of these reforms is to make the Indian economy a rapidly growing and globally competitive one. This period of economic change has had a tremendous impact on the overall economic development of almost all the major sectors of the economy.

Conclusion

Undoubtedly, the Indian economy has made rapid strides in the process of globalization which provides access to new markets and technologies. Globalization has also given way to higher economic growth rates which have helped to improve the standing of the Indian economy in the global market and make it an important player. The process of globalization has brought significant gains to our country's economy—increases in GDP growth rates, a buildup in the volume of exports & imports, huge flows of investment and many other things. Because of globalization, India's share of the world's GDP has risen from 117 in 1990 to 94 in 2009. India's economic achievements have attracted the attention of other regional and global powers seeking closer cooperation.

Though the development of the Indian economy has been progressing rapidly since the inception of the globalization process in India, many basic problems like prevailing poverty in rural areas, the menace of corruption and the instability of government in the political arena are still a cause for concern. Besides that, globalization did not prove beneficial for the agricultural and industrial sectors as well. It can be said that whatever growth the Indian economy has achieved in the post-globalization period; it seems to have been very little compared to other developing countries. Thus, the lesson of the recent experience of globalization is that India must carefully choose a combination of policies that best enables it to take advantage of the opportunity while avoiding the pitfalls.

"Globalisation is ultimately a major force for good and, indeed, if adequately backed by nation's politics, it can be a major force of prosperity in the world".

- Amartya Kumar Sen.

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