GLOBALISATION AND IT'S IMPACT ON INDIAN ECONOMY

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Introduction

History has been replete with ample incidences of our country having had business, cultural exchanges with the rest of the world in many ways. Such exchanges, undoubtedly, contributed to economic, political well being of our people in variety of means. Possibly, because of changing political landscape, invasions from alien countries, evolving demographic profile the deep rooted business and other linkages might have snapped to a great extent.

The Advent of Globalization and Historical Orientation:

Hence, the advent of globalization is not a new phenomenon to india. Globalisation may be defined as a situation where universal access to goods and services are guaranteed without any artificial barrier created by any forces. This term has been assuming enormous importance given the fact that globalization ensures level playing field for anyone who is ready to compete based on the utility value of the product.

The need and realization for being networked arose in way back 1980's amongst the comity of nations. Mutually beneficial economic assignments and cultural enrichment were the dire need for this sort of realization.

Apart from the trade and cultural linkages, foreign direct investment is considered to be the barometer of a nation's level of dependence or interdependence with the global economies. Since 1980, there has been a steady increase in the flow of FDI into the country thanks to the pro active measures initiated by the successive governments at the centre. FDI in all sectors of economy except a few exempted areas helps to get the cutting edge technology, boosting of production, ownership and control. Compared to the global economies, India's attraction of FDI into the country has been unparallel.

Financial Sector

Financial sector is very vibrant and evolving since the advent of globalization. Indirect cash flows such as bank lending, bond issuance, export and import or commercial credits, official grants and loans and financial derivatives have undergone sweeping changes in an atmosphere which is conducive to facilitate across the board exchange of goods and services with minimum bureaucratic control. This process has received the stimulus and got accelerated in the recent times.

Multinational or Transnational Corporations have played an important role in the process of globalization of trade, production and investment. The MNC's together and through their joint ventures extended and intensified their activities and in this way they were aided by their ability to shift their resources readily through the world.

Production of goods and services were no longer confined to any particular geographical area rather meant for world market. Globalisation cuts the need to be a particular market centric and hence share and utilize the resources internationally. The emergence of Multinational companies has facilitated the production process being carried out by sourcing input from different angles.

International Impact

Globalization process was aided strongly by many international organizations like GATT (General Agreement On Tariff and Trade),European Economic Community(EEC) and the like. The GATT sowed the seeds of globalization among the member countries by effectively integrating the actions of individual member countries in a common platform. It had effectively, laid down the rules and regulations and code of conduct for member countries. Negotiations at world forum with so many member countries to reduce the tariff and other unnecessary bottlenecks plaguing the growth and expansion of the global trade.

The formation of the European Economic Community (EEC) and its evolution over the years, has contributed to the process of global economic integration, though GATT rules do not explicitly permit the formation of regional economic groups.

The analysis of trade in the context of globalization shows that globalization has restricted international trade in many ways and both qualitatively and quantitatively; but these developments are heavily biased in favor of rich industrial countries. Two unique features globalization have been interdependence and competition. The rich industrial nations are imposing indirectly restrictions on trade by including trade in services and IPRs in trade policies.

The position of developing countries in the context of globalization process needs to be analysed. Given the development differential between the developed countries and least developed countries and the structural disadvantages they suffer from, least developed countries do not have the economic strength to derive the full benefits of globalization process.

The global economic forces that impinge on least developed countries are essentially

- International trade in goods and services
- Flows of international capital
- Migration

Least developed countries continue to be at a considerable disadvantage in regard to trade in goods and services.

As one of the fastest growing economy of the world, it is becoming imperative to analyze the role of India with respect to global scenario in globalization era. Though it has been argued in certain quarters that there is no spelt out policy of government as far as globalization is concerned, it is indisputable that our economy is bearing all the attributes of globalised economy. While globalization offers a wide perspective of the economy, the economic integration which taking place quietly as economic block based on the common interest among regional players cannot be ruled for consideration.

Economic reforms initiated in 1991 is said to be the cornerstone of India's economic resurgence. The nation has experience the financial bankruptcy in 1991 which was reflected in declining growth rate, falling foreign exchange reserves, rising inflation, current account deficit and eventually budget deficit. The reform process formulated owing to new policy initiatives ranged from industrial, public, financial and fiscal sector.

The following were the objectives readily identified as the reasons for embracing this policy

- To pull the economy out of the foreign exchange crisis
- To bring out structural changes
- To express domestic producers to competition
- To achieve rapid growth of income and productive employment

Trade Reforms

A major feature of external sector reforms is the removal and simplification of restrictions, rules, procedures and controls on foreign trade of the country i.e imports and exports, to make trade in goods and services as near to free trade as possible.

Here, free trade means trade which is free from quantitative restrictions and tariff and non-tariff barriers. This policy measure marks a radical departure from the trade policy pursued till June 1991. Prior to June 1991, India's trade was not free but was highly regulated though regulation was considered consistent with the objectives and needs of the development economy.

Foreign Trade Policy

Accompanying the trade reforms are the changes in foreign exchange policy, as trade and payments are very much interrelated. In fact, as the foreign exchange crisis was the major motivating factor for economic reforms, foreign exchange management received prior attention. The step was to devalue the rupee to the extent of 18 percent, to make the rupee rate realistic and better aligned with the values of major currencies.

Capital Flows

The most important feature of reform, which is a direct attempt of integration of the Indian economy with the world economy and which paves the way for globalization, is the removal of regulations on foreign capital especially capital inflows.

These inflows cover foreign direct investment, portfolio investment and external economic borrowings. Till the 1980's, the role of foreign capital was restricted to financing current account deficits in balance of payments. Moreover, the period up to late seventies was characterized by almost exclusive reliance on concessional official assistance; and this source of finance started drying up at a time when the country's deficit in balance of payments started widening in the eighties.

Similarly, foreign portfolio investment has been encouraged to bring down the cost of mobilizing primary capital and the boost the volume of domestic investment. The policy has also taken into account the role of portfolio investment in improving secondary market investor discipline, by bringing international practices.

The reforms concerning the domestic sector relate to industry, financial system and fiscal policy

Industry

Since the globalization process started, Indian industry has undergone a sea-change in terms of the basic parameters governing its structure and functioning. The reforms undertaken since LPG era are

- Wide scale reduction in the scope of industrial licensing
- Simplification of procedural rules and regulations
- Reduction of areas exclusively reserved for public sector
- Disinvestment of equity of selected public sector undertakings

Strategies

It is important to refer to some basic consideration relevant to the formulation and implementation of strategies for dealing with problems arising from globalization.

First, globalization should be accepted as an emerging and powerful reality: and our task as an independent nation is to ensure that we maximize the advantages for our country and minimize the risks. Whether we like it or not, globalization is the order of the day.

Secondly, Just how there could not be a blind support for globalisation, the same applies to opposing it. The need is to strike the middle path between the two. The objective was to safeguard national interests through self reliance and by building a Strong economy.

Thirdly, it is necessary to safeguard our domestic industries by effectively formulating a policy framework which would safeguard the domestic sector from being crowded.

Conclusion

Hence, looking from the backdrop of global economic situation and evolving domestic conditions, due care must be taken while going forward with the globalisation process by cushioning the domestic industries and their survival through effective policy interventions and protectionism as per the requirements of the time.

References

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