India in the Process of Globalization

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Abstract: The human society around the world, over a period of time, has established greater contact, but its pace has increased rapidly since the mid 1890’s. The concept of globalization for the first time was introduced by Father of Economics, Adam Smith in his book ‘An Inquiry into the Nature and Causes of the Wealth of Nations’ (1776). Globalization is basically a socio-economic term where people think locally and act globally. The phenomenon of globalization has many aspects and implications. It is referred to as a strategy of economic development where border of the countries does not matter for movement of commodities, services, capital, finance, labour, technology, ideas and information. This strategy generates a process of increasing economic integration and growing interdependence between countries of the world economy. The process of globalization in India started at large scale in July 1991 when government of India introducing great economic reforms. The objective of this paper is to analyze the process and effects of globalization on India economy by reviewing all polices of Government of India since independence. The whole study is based on the secondary data taken from Department of Industrial Policy, GOI, RBI, World Bank Repots, IMF etc. that leads to increase the process of globalization in India.

Keywords: Indian Economy, Globalization, Liberalization& Privatization.

I. INTRODUCTION

International Monetary Fund (IMF) Defines, Globalization as: ‘The growing economic interdependence of countries worldwide through increasing volume and variety of cross border transactions in goods and services and of international capital flows and also through the more rapid and wide spread diffusion of technology.’

Globalization: An Overview

The process of globalization started on a much wider scale with emergence of capitalism as a universal/dominant system in the world. This generated a very powerful wave in the nineteenth century and continued in the twentieth century till the outbreak of First World War (1914-18). This was the period when colonialism was at its peak and the developing world of today was colonies of imperial powers. This resulted in high degree of integration of the world economy through international trade and capital investments by imperial powers enjoyed preferential position within their colonial empires for foreign trade and capital investment consequently, other imperial powers could not compete at par for export of commodities and capital investment in the territory under the control of a particular imperial power. This generated conflict among them on one hand and subordinating of the colonial economy to the requirements of the imperial powers in the post-colonial period, most of the underdeveloped countries adopted development strategy which consciously attempted to limit the degree of openness and integration with the world economy. This task was attempted through active involvement of the government in the development affairs.

Many countries adopted national planning process and tried systematically to protect the domestic producers from competition of well-established global producers. The justification for this came from well-known argument of infant industry. This generated autonomous development and self-reliance in some areas of the economies. It was argued by a number of development economists that market in these countries was not sufficiently large and developed to allow industrialization in these colonial countries (Amin, 1974; Frank, 1975; Baran, 1958). The state was assigned a strategic role for economic development. This was a departure from colonial era which was characterized by open economies, unregulated activities. The role of state was considerably enhanced and industrialization strategy had a large component of import substitution (where local/national producers enjoyed a protected marked). There was almost a development consensus at that time with very few dissenters. However, this consensus began to face serious challenge and influential quarter (Gill, et al, 2010; Rosenstein-Rodan, 1943; Nurkse, 1952; leibenstein, 1945).

The challenge came from IMF, the World Bank (IBRD) and the US Treasury in the form of an alternative package policy known as “Washington Consensus”. Initially, this set of policies was practiced by Ronald Reagan in the US and Margaret Thatcher in Britain. These policies are also called “Neo-liberal” policies. The Washington Consensus refers to the development approach which is opposed to the development Consensus of the 1950’s and 1960’s. This has emerged from the integration of traditional concerns of IMF for macro-economic stabilization, (Anti-inflation and Anti-deficit policies) and the World Bank (IBRD) agenda of efficiency and enhancing reforms.
(openness, competition, deregulation and privatization). There are three pillars of this consensus. These are privatization (reducing the role of public enterprises by selling them off), liberalization (freeing up market from regulation and controls) and macro stability (by controlling fiscal deficit through reduction of government/public expenditure). These sets of policies were tried in Latin America among the developing countries in the 1980’s at the instance of international financial institution. These institutions spearheaded the implementation of these policies in the countries who are in deep crisis, and approaching them (IMF, IBRD) for financial assistance. A typical package includes fiscal and monetary austerity, devolution, trade liberalization, financial liberalization, banking system restructuring, price liberalization, labour market deregulation, tax reforms, and subsidy cuts (Gill, et al 2010; Stiglitz, 2002; 2003; You, 2002).

The implementation of Washington Consensus as an alternative strategy of development has been undertaken by the IMF and the World Bank (IBRD) with the crucial support of the US Treasury. The US has been acting as a key player to enforce this strategy in the world as the largest economy of the globe and being leader of G-7 countries. The fall of the Soviet Union and other centrally planned economies and their transition to the market economies in the early 1990’s prepared a ground for easy acceptance of these policies in the developing countries. The corporate capitalism led by MNC’s played a leading role through media under their control to propagate relevance of this strategy. An intellectual climate was built where any opposition to this strategy began to be looked at as an orthodox thinking /old fashioned outlook. MNC’s with huge of amount of capital and financial resources at their command and being leader in technology and human resource have large stakes in this strategy of development they have benefited from the strategy in the form of expansion in the level of their activities and areas of operation. Many areas such as the former Soviet block countries; China, Vietnam, etc. came under their operation and accelerated levels of operations in other fields. The expansions in the level of activities of MNC’s accompanied by many concessions, the extended by government competing for capital and technology of MNC’s have made accelerated operations of global giants more profitable (Gill, et al, 2010; Lall, 2002).

The formation of WTO replacing GATT (general agreement on trade and tariffs) since January 2005 has introduced further quantitative and qualitative changes in the process of globalization and contributed to creation of conditions for better implementation of Washington Consensus. Many new areas/activities which were earlier not under the ambit of global trading system were brought under the purview of WTO. They also included production and trade of agriculture produce, trade in services, Intellectual Property Rights (IPRs), trade related investment measures etc. At the same time, quantitative trade barriers have been removed and tariff barriers have been decisively brought down. The exports subside have also been brought down as they are regarded as trade distorting in nature. In addition, WTO has been empowered to establish dispute settlement mechanism to sort out dispute among the trade partners called counteracting parties. WTO has also been given authority to supervise implantation of GATT Agreements 1994 and punish the countries who do not fully comply, with various provision of the WTO (GATT Agreement 1994). This institution is an open-ended organization which can bring more issues for negotiation among the countries. The WTO is mandated with more authority to intervene in the global economy compared to any other multilateral institution such as IMF and World Bank (IBRD). In a way the formation of WTO had led to reduction in some way the sovereignty of nation state (Gill, et al, 2010).

II. GLOBALIZATION AND INDIAN ECONOMY

The process of globalization in India was started by integrating the Indian economy with the world economy through international trade, foreign direct investment, foreign institution investment etc. Looking at the history of the policies of the Government of India (GOI) on international trade and investment reveals much on the globalization process. The industrial policy around 1948 was quite liberal on trade and investment policies were mainly driven by needs of local industry and economy through they were implemented in a small step. Industrial Policy (1948) was the foundation of industrial development in independent India. While emphasizing on public investment in the industrial infrastructure of the economy of the Country, the Government of India looked for foreign investment (II) other sectors of the economy foreign investors were assured of the unrestricted remittances of profits and dividends and foreign companies were treated on equal terms with the Indian companies. The Foreign Investment Statement (1949) was in favour to the foreign companies in India. In the Industrial Policy (1956) few industries, were reserved on the basis of their strategic nature. Public investments and foreign companies were restricted from investing in these industries. However, the policy did not distinguish between the local companies and the foreign companies on other accounts. Following the foreign currency crisis in 1957-58 the GOI offered the foreign companies, several incentives, concessions, and relaxed restriction on entry in some industries. Both the policies of 1948 and 1956 were such that foreign investments into India increased steadily (Nayak, et al, 2006).

Foreign Exchange Regulation Act 1973 (FERA) Under FERA all foreign companies that owned more than 40 per cent equity in their Indian operations were required to get the permission of reserve of Reserve Bank of
India (RBI) to continue their business in India. Depending on the nature of business, some companies were allowed to own 51 per cent of equity and others were allowed to own 74 per cent of equity. With the formation of the act, foreign companies were treated on par with Monopoly and Restrictive Trade Practices (MRTP) companies. The foreign companies were required to meet the export obligations under Industrial Licensing Guidelines, (IGL) 1970 for MRTP companies, although, the Industrial Policy Statement, 1977 had announced the relaxation in remittances of profit, royalties, dividends and repatriation of capital of foreign companies, the industrial policy 1980 set the tone of liberalization in a slow but steady pace, Industrial Licensing was streamlined and made easier. Provisions in MRTP Acts were modified to simplify business transactions; export-import norms were also changed. The GOI transferred most of the items that were earlier imported through state trading corporation to Open General License (OGL) where in these imports and exports could be routed through private firms. Increasing the number of items in the OGL meant a greater liberalization on the export and import of items to and from India.

The Indian economy was in deep crisis in July 1991 when foreign currency reserves had plummeted to almost $ 1 billion; inflation had reported to an annual rate of 17 per cent; fiscal deficit was very high and had become unsustainable; foreign investors and NRIs had lost confidence in Indian economy. Capital was flowing out of the country and the country was close to defaulting on loans. Along with these bottlenecks at home, many unforeseeable changes swept the economies of nations in Western and Eastern Europe, South East Asia, Latin America and elsewhere, around the same time. These were the economic compulsions at home and abroad that called for a compete overhauling of our economic policies and programmers. Important measures were initiated as a part of the liberalization and globalization strategy in the early nineties which included; Devaluation; - The first step towards globalization was taken with the announcement of the devaluation of Indian currency by 18-19 per cent against the major currencies in the international foreign exchange market. In fact, this measure was taken in order to resolve the Balance of Payment (BOP) crisis.

- Disinvestment; - In order to make the process of globalization smooth, privatization and liberalization policies are moving along as well under the privatization scheme. Most of the public sector undertaking have been disinvested and sold to the private sector.
- Dismantling of the industrial Licensing Regime; - at present, only six industries are under compulsory licensing mainly on accounting of environmental safety and strategic considerations. A significantly amended locational policy in tune with the liberalized licensing policy is in place. No industrial approval is required from the government for locations not falling within 25 kms of the periphery of cities having a population of more than one million.
- Allowing Foreign Direct Investment (FDI); - to encourage non-debt flows. The department has put in place a liberal and transparent foreign investment regime where most activities are opened to foreign investment on automatic route without any limit on the extent of foreign ownership. Some of the recent initiatives taken to further liberalize the FDI regime, inter alias, include opening up of sectors such as Insurance (up to 26 per cent) development of integrated townships (up to 100 per cent) defence industry (up to 26 per cent) tea plantation (upto100 per cent), subject to divestment of 26 per cent within five years to FDI enhancement of FDI limits in private sector banking, allowing FDI up to 100 per cent under the automatic route for most manufacturing activities in SEZs; opening up B2B e-commerce; Internet Service Providers (ISP) without gateways; electronic mail and voice mail to 100 per cent foreign investment subject to 26 per cent divestment condition; etc. The department has also strengthened investment facilitation measures through foreign investment implementation Authority (FIIA).
- Non Resident Indian Scheme; - the general policy and facilities for foreign direct investment as available to foreign investors/Companies are fully applicable to NRIs as well. In addition, Government has extended some concessions especially for NRIs and overseas corporate bodies having more than 60 per cent stake by NRIs.
- Throwing open industries reserved for the public sector to private participation; - Now there are only three industries reserved for the public sector.
- Abolition of the (MRTP) Act; - which necessitated prior approval for capacity expansion.
- The removal of quantitative restrictions on imports.
- The reduction of the peak customs tariff; - from over 300 per cent prior to the 30 per cent rate that applies now.
- Harsh restrictions on short-term debt allowing external commercial borrowings based on external debt sustainability.
• Wide-ranging financial sector reforms: - in the banking, capital markets, and insurance sectors, including the deregulation of interest rates, strong regulation and supervisory systems, and the introduction of foreign/private sector competition

   All these economic reforms popularly known as **Liberalization, Privatization and Globalization** (LPG) aimed at making the Indian economy a fastest growing economy and globally competitive. The series of reforms were undertaken with respect to industrial sector, trade as well as financial sector to make them efficient. With the onset of reforms to liberalize the Indian economy in July 1991, a new chapter has downed for India its billion plus population. This period of economic transition has a tremendous impact on the overall economic development of almost all the major sectors of the economy, and its effects over looked besides, it also marks the advent of the real integration of the Indian economy into the global economy. In the Uruguay round of negotiations of GATT 1994, India signed the agreement on trade related investment measures that has forced India to do away with protection of Indian industry from several global competitions within five years. Of the 13 investment measures that were identified to distort global trade, India has been using as many as eleven of them to meet the needs of social and economic development of the country. Signing of this agreement is bound to remove these much needed measures. In the meantime, the custom duties on imports have been steadily brought down as per the **Industrial Licensing Policy 1991** subsequently, in **January 1995 as a founder member of GATT**; India joined WTO and agreed to stand by the regulatory framework of free global trade and competition (Somalkar, 2006).

   **Foreign Exchange Management Act 1999** (FEMA) Replaced the FERA (1973) that regulated all foreign exchange transactions. The objectives of FEMA have been to facilitate external trade and payments and to promote orderly development and maintenance of foreign exchange market. All residents can now put foreign exchange on current account transactions through an authorized dealer. Foreign firms also qualify for this, under the resident status, except for sectors like banking, NBFC, and civil aviation, petroleum, real estate, venture capital funds, investing companies in infrastructure and service sector, atomic energy, defence, agriculture, and plantation, print media broadcasting and postal services, automatic approval of FDI allowed in all other sectors and secretariat of industrial assistance has become more that of a facilitator.

   The policy indication of Government of India (GOI) 2004 on privatization, liberalization, trade and investment will undergo some transformation if the newly elected United Progressive Alliance (UPA) Government led by Indian National Congress Party as the Prime Minister Dr. Manmohan Singh who earlier was the Finance Minister during the Narasimha Rao Government when the great reforms initiated in July 1991 were to implement its polices. The National Democratic Alliance (NDA) led by the Bharatiya Janta Party (BJP) that pushed for privatization of public sector companies in India and liberalized trade and investments in India was rejected by the Electorates in India in the general elections 2004. Hence we may see some reversals or slow down the process of globalization in India, the crash in the stock markets following the Congress Party led the general elections 2004 was an indication that the foreign companies pressured policy reversal with the UPA Government. The check on privatization of public sector companies and increased Government’s investment into some of the public sector companies in the recent months confirms some expectations of the policy changes in India.

   The UPA government headed by Dr. Manmohan Singh was in power for the two consecutive terms since 2004 which was a golden phase in manufacturing, and employment rate increased in growth in India. By opening of trade it led to creation of new jobs but only import induced jobs. Manufacturing employment growth has been of intense debate in India. The dismal record of Dr. Singh’s Government was one of the control themes of newly elected NDA Government lead by BJP, Prime Minister Narendra Modi who assumed office in May 2014, by campaigning during Lok Sabha election in 2014, in his maiden independence day last year, Prime Minister Narendra Modi announced the ‘Make in India’ initiative to unleash Indian manufacturing powers on the global level by attracting global investment in India. The foreign policy of Modi Government appears geared to reinvent India as a more competitive, confident and secure country. A robust foreign policy, however, can sustain itself only on the foundation of a strong domestic policy, a realm where Mr. Modi must prove he can help transform India. (Chellaney, 2014)

   No Prime Minister participated in so many high-powered multilateral and bilateral summits in his/her first months in office as Mr. Modi had done. NDA government led by BJP creates the environment of ease of doing business by changing a lot of legislative and administrative laws, like scrapping of the Planning Commission and establishing the new institution, **National Institute for Transforming India** (NITI AYOAG), implementing **Minimum Alternative Tax** (MAT) etc. The foreign visits of Prime Minister Narendra Modi also show the increasing process of globalization in India by multilateral and bilateral trade agreements and MOU’s with various countries, governments. The BJP Government also wants amendments in lot of legislations like simplification the tax structure of India by introducing **Goods and Service Tax** (GST), amendment of land acquisition system in India and to enhance the trade with 'Make in India' scheme.
In the light of Government’s commitment to reforms, along with the improvements in the price and external sector scenario including the possibility of international oil prices reaming generally begin, the outlook for domestic macroeconomic parameters is generally optimistic, notwithstanding the uncertainties that could also arise from an increase in the interest rate in US and situation prevailing in Greece within Euro-zone and assuming normal monsoons for better prospects in the world economy that could provide impetus to higher exports for Indian products and services, a growth of around 8.5 per cent is in the realm of possibility in 2015-16 (Economic Survey, 2014-15)

III. CONCLUSION

Summing up the debate on globalization is not easy. It comprises of liberal microeconomic policies such as deregulation, liberalization, and privatization. In India it was conceived and initiated by Prime Minister Rajiv Gandhi in 1985 and is known as New Economic Policy. However, as a system it was officially adopted by former Prime Minister P.V. Narasimha Rao with Dr. Manmohan Singh as his Finance Minister in July 1991 which was popularly known as New Economic Reforms (i.e. LPG) and now it is highly accelerated by Prime Minister Narendra Modi through Make in India, scrapping Planning Commission and establishing NITI AYOAG, introducing Goods and Services Tax (GST), Minimum Alternative Tax (MAT) etc. The process of globalization is hamstrung as there are misgivings, some genuine and some imagined. It is believed that globalization will lead to marginalization of some groups, causing large-scale unemployment and inequalities, as also upsurge of consumerism and damage to the environment. If adopted without checks it can cause loss of country’s sovereignty. It is also presumed that free market system tends to become a source of economic and political corruption. India’s experience so far is mixed. How far the country’s nation-builders take us is still under an interrogation mark.

Limitations of the Study

The process of globalization has transformed the lives of the people and its implications are huge but this study mainly focused in context of Indian economy only.

Directions for the Future Research

This study describes the process of globalization on global level as well as on India level with chronological way. It also analyzes the International and Indian Institutions policies which enhance the process of globalization all over globe as well as in India. This study is the historical analysis in nature and in future the researcher is going to examine the implications of these polices on macro level as well as micro level with empirical analysis.

Suggestions

- Many countries adopted national planning process and tried systematically to protect the domestic producers from competition, therefore, there should be an independent or Government body which can systematically protect domestic producers.
- The policies of Government of India should be able to push foreign direct investment into manufacturing sector and high technology areas through which the Indian economy can effectively be part of globalization process worldwide
- The process of globalization is hamstrung as there are misgivings, some are genuine and some are imagined. It is believed that globalization lead to marginalization of some groups, cause large-scale unemployment and inequalities and it is happening. So there is need to make policies regarding tax structure, labour laws, land reform laws etc. which leads to decrease unemployment and inequalities. And these policies should be pro-people and implemented at grass-root level.

IV. REFERENCES