Indian Journal of Sustainable Development
4 (2) 2018, 29-36
http://publishingindia.com/ijsd/

Role of Globalization in Economic Growth of India: Business Policy, Strategy and Economic Issues

Shakira Khan*, Krishna Kumar Jaiswal**

Abstract

Growing integration of economies has transformed the world economy as a global village. Globalization helped to remove all the barriers between the countries, facilitates trade expansion, foreign inflow of capital, labour and technology. In early nineties Indian government has taken major steps for the economic reforms in the form of Liberalization, Privatization and Globalization. The major steps for globalization were the devaluation of Indian currency, allowing Foreign Direct Investment (FDI), removal of quantity restriction on import and financial sector reforms. It was observed that the average annual growth rate in 1990-2000 was 6%, which changed the scenario and India became the fastest growing economy in 1990s. Yet India's trade share with world economy was very low due to gradual growth of infrastructure and unequal industrial growth. The on-going process of globalization can change the scenario if it is used with some precautionary measures and implemented properly. For the purpose of analysis some economic variables have been taken which are as GDP, Foreign direct Investment, foreign exchange reserve, export and import of the country. The objective of this paper is to analyse the relationship between globalization and economic growth. Secondary sources of data are used for the purpose of analysis which is collected through government website, published journal and newspaper articles. After the analysis of economic variable it can be seen that globalisation stimulated the economic growth of India, growth rate improved, foreign exchange crunch in 1991 moved towards surplus, FDI inflows increased but there were some economic issues which created hindrances in the path of growth such as declined agriculture share in GDP, high rate of labour mobility, fragile financial market. This paper is divided into four sections. First section is dictated to Introduction, Literature Review, Objectives and Research Methodology. In Second section major steps which are taken for globalization are discussed. Third section is of result and discussion in which impact, strategy and economic issues of globalization on Indian economy are discussed and at last conclusion and suggestion are discussed.

Keywords: Poverty, Development, Health, Education, Living Standard

Introduction

Globalization can be defined in many ways but in common parlance it is the process of free flow of capital, labour and technology between the economies or in the other words it is strategy for integration of world economy in order to facilitate expansion of trade, financial flows and enhancement of employment opportunities. It also includes free movement of labour which reduces the cost of production. In context of India the process of globalization starts from the economic reforms in 1991, popularly known as LPG model of reform. LPG model includes Liberalization, the process removing trade barriers. Privatization, it is the process of disinvestment of public sector undertaking and Globalization is the integration between economies. For the effective use

* Assistant Professor (Economics), Department of Humanities and Management, National Institute of Technology Delhi, New Delhi, India. Email: shakirakhan@nitdelhi.ac.in
** Research Scholar, Department of Humanities and Management, National Institute of Technology Delhi, New Delhi, India. Email: krishnakumar@nitdelhi.ac.in

of globalization strategy liberalization and privatization are two supporting policies. During 1980-1990 Indian economy was in economic crisis. There was a balance of payment problem, oil shock in Iraq and petrol price rise which pushed up the import bill while exports of country continuously declined. The government changed the industrial and trade policies to improve productivity and competitiveness in private and public sector. Besides, they also changed the industrial licensing (only three industries are reserved for public sector), foreign participation increased and special concession for Non-Resident Indian's in investment was announced, permission of foreign portfolio investment, transparent and standard trading system in stock exchanges were availed. Indian economy has become more connected and gained valuable position in the world economic scenario. It was able to maintain 6% average growth in first ten years of reforms and Indian economy became the fastest growing economies in last decades of 20^{th} century. Yet the share of India's trade in world is very low. The strategy of globalization is implemented effectively then, India would become a super power in world economy. Globalization has greater implications on expansion of trade, foreign investment inflow and interrelation of economies. India's economic performance over the last two decades has exerted the consideration of other regional and global powers for closer cooperation with India.

Globalization in India

Since Second World War Globalization was specifically the result of planning of developed countries to breakdown border which negatively affected the trade of world. For the enhancement of prosperity and dependency between the countries and to decrease the chances of war, the framework of Bretton wood conference was established which ultimately led to the establishment of International Monetary Fund (IMF) and International Bank for Reconstruction and Development (IBRD).

Post- independence, Indian economy was regulated by Private and Public sector. Private sector operated small and medium enterprises and Government was regulating transportation (Airlines, Roadways and Rails) and communications services (postal, telephone, telegraph, radio and television broadcasting) and social services (education and health-care). Government intention was to reduce the cost of services as well as to increase the employment opportunities. Due to oil crisis and Gulf war India faced financial crisis and economic unrest. The consequences of these major factors revealed high inflation, unemployment, low foreign exchange reserve. At that time foreign exchange reserve was US $ 240 million which was equal to the payment of two week's import (Gosai, 2014). The IMF and World Bank offered help to India in condition with economic reform. To compensate for this India entered into the agreement of stand by arrangement with the supplementary loan provided by IMF (Shaini, 2014). Financial Institutions like IMF and GATT, replaced by the WTO and it pressurizing India for being more receptive to Foreign Direct Investment.

Literature Review

Somalkar, D.P. (2010) in his study "Impact of Globalization on Indian economy" examined the different economic variables and concluded that economic reform in nineties had removed trade barriers, increased foreign exchange reserves and controlled inflation. He also suggested making investment friendly law, diversification in agricultural industry, allowing of foreign direct investment in some other area. Ahluvalia M.S. (2005) in his study "Economic Reforms in India Since 1991: Has Gradualism Worked?" analyzed the economic reforms in India and concluded that after two decades of reforms the pace of growth is still slow due to slow pace of implementation and political instability. Sharma A. (2017) in his analysis of "Impact of Globalization on sustainable Indian economy" examined the relationship between globalization and sustainable development of Indian economy and concluded that even after the barriers are removed and economies are integrated still many countries are not getting the advantage of new opportunities and suggested that for sustainability there is a need of development of human being and extension of democracy. Suresh, M. D. (2015) in his paper "Globalization and its impact on India economy" discussed the trend of Indian economy after post- cold war era and concluded that it changed the scenario positively. GDP growth, exports, imports and foreign investment increased and India become an important player in global economy and suggested to follow the measure to reduce fiscal deficit and to create investor friendly environment. Hartungi, R. (2006) in his research work " Could developing countries take the benefit of globalization" evaluated the advantages and disadvantages of globalization for developing countries and stated that it will benefit mostly to industrialized countries and suggested if the code of conduct will be followed by MNC's it will be beneficial for developing countries as well. Amar K.J, Kalyan, Praniba (2005) in their study related to, "Globalization process in India: A historical prospective since 1947" examined the effect of globalization on foreign investment in India and concluded that it benefited in one way, the foreign investor only, and suggested to allow to remove the barrier of foreign direct investment in manufacturing and high technological sector.

Objectives

The objectives of study are:

- To analyse the trend of economic variable after new economic policy.
- To evaluate the relationship between globalization and economic growth.
- To examine the measures taken by the government for the Globalization.

Research Methodology

The study is based on secondary sources of data. The data has been collected from the Journals, articles, newsletters and government agencies. Data of Gross domestic product, foreign direct investment and foreign exchange reserve are taken from the published work of Reserve Bank of India, Data of export and import has been taken from Directorate General of Commercial Intelligence and Statistics, Government of India.

For the purpose of analysis following formulas have been used:

GDP Growth = [(Current Year GDP-Previous Year GDP)/ Previous year GDP ×100] Average growth of Five year = Sum of five Year GDP growth in% /5

Export growth in % = [(Export of current year- Export of previous year)/ Export of previous year×100]

Five Year Average Growth of FDI = Sum of five year of FDI/5

Major Step towards Globalization:

- Devaluation of currency: In order to remove balance of payment crisis Government announced the scheme of devaluation of currency by 18-19% against major currencies in international foreign exchange reserve.
- Disinvestment: For facilitation of globalization, strategy of privatization is required. In this regard most of the public sector undertaking has been sold to private sector (Somalkar, 2010).
- Market determined exchange rate: In 1993 exchange rate was changed from pegged exchange rate system to market determined exchange rate system.
- Convertibility of rupee: one of the important changes after globalization was the convertibility of rupee on balance of payments on current account.
- Liberalize Foreign Investment: New Economic Policy provides automatic approval of foreign direct investment. In 1996, government raised the ceiling from 51% to 74% for foreign equity participation, Mukher (n.d.).

Allowing of Foreign Direct Investment: Some of the measures taken was to liberalize the FDI regulation, include opening up of sectors such as Insurance (up to 26%), defence industry (up to 26%), tea plantation (up to100%), subject to divestment of 26% within five years to FDI), enhancement of FDI limits in private sector banking, opening up of Business to Business e-commerce, Internet service providers (ISPs) without gateways; electronic mail and voice mail to100% foreign investment subject to 26% divestment condition (Sahiti, Aliu, & Sahiti, 2016).

Impact of Globalization on Indian Economy

After the economic crisis of 1991, the government of India introduces the new economic policy in the form of liberalization, privatization, and globalization. For the purpose of analysis, some economic variables are taken such as GDP, Export and Import, foreign exchange reserve and foreign direct investment.

Gross Domestic Product

Table 1: Trend of GDPFC At Constant Price In (%)

Year	Average of 5 Years Growth
1990-91 to 1994-95	5.64
1995-96 to 1999-00	6.78
2000-01 to 2004-05	5.68
2005-06 to 2009-10	8.73
2010-11 to 2014-15	6.57
2015-16 to 2017-18	7.2

Source: rbi.org.in

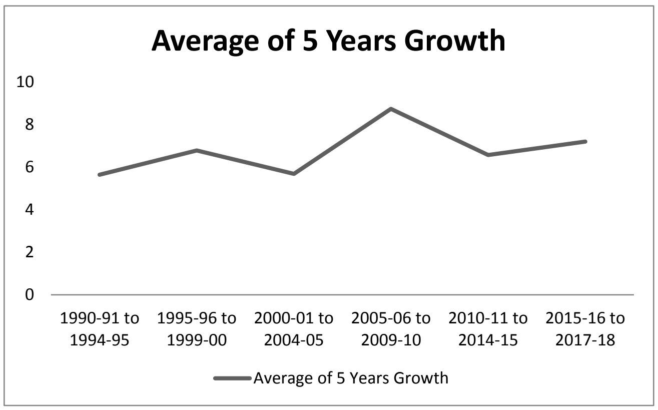

Fig. 1: Based on Table 1

During the period of 1985-1990 inflation rate was high, there was balance of payment crisis, foreign exchange reserve was very low, and these all factor affect the growth of Indian economy. New Economic Policy in July 1991 was launched after which the GDP growth rate increased, during the first five year of economic reform the average growth was 5.64% which further increased to 6.47% during second five year of reform. It was observed that annual growth rate of last decade of 20th century was 6% which helped the Indian economic to become the fastest growing economy in 1990s. During 2005-06 to 2009-10 the average five year growth was 8.732% due to competition act, growth of MNC's and service sector growth in the economy. Further during 2010-11 to 2014-15 average five year growth decreased to 6.57% due to euro-zone crisis in 2010 to 2013 and exchange rate volatility during 2012 to 2014 (Dua & Tuteja, 2015). During last three years of five year plan the average growth was 7.20 % due to different financial inclusion practices of government.

Export and Import

Table 2: Trend of Export and Import

Year	Export	Import
1985-86 to 1989-90	12,264.12	17,933.14
1990-91 to 1994-95	17,286.60	23,465.04
1995-96 to 1999-00	34,062.42	41,870.32
2000-01 to 2004-05	57,696.98	70,605.68
2005-06 to 2009-10	151,291.04	235,681.86
2010-11 to 2014-15	296,453.68	449,614.44
2015-16 to 2017-18	280,506.56	410314.36

Source: Directorate General of Commercial Intelligence and Statistics

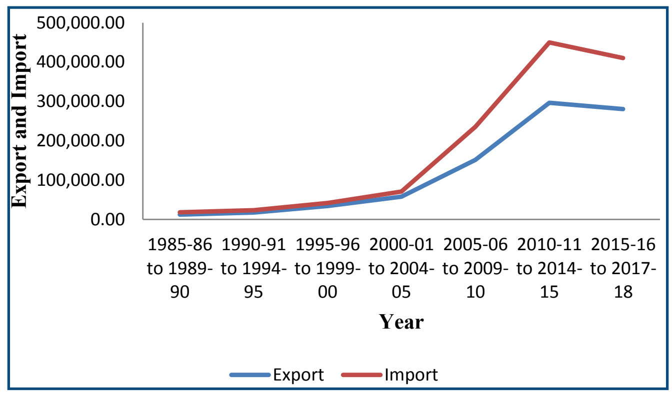

Fig. 2: Based on Table 2

After the initiation of New Economic Policy, Indian economy became more connected to the world economy, in the initial phase of reforms there was slow growth of export and import due to restrictive foreign investment flows, and trade tariff barriers. Fig. 2 and Table 2 shows that during first five year of economic reforms export increased from US $ 12,264.12 Million to US$ 17286.60 Million and Import increased from US$ 17933.14 million to US $ 23465.04 Million. During 2000-01 to 2004-05 the growth of export and import again declined due to Asian crisis and dot com crisis in USA. Second five year of 21st century featured high growth trajectory due to growth of MNC's, removal of restriction on investment flows, export increased from US$ 57696.98 Million to US $ 151291.04 Million and import increased from US$ 70605.68 Million to US $ 235681.86 Million. Further export and import increased to US $ 296453.68 Million and US $ 449614.44 Million in 2005-2006 to 2009-2010 and 2010- 2011 to 2014-2015 respectively

(Economic Survey 2011-12). Last three year's average export and import was not satisfactory due to exchange rate volatility, demonetization and increased crude oil prices (Singh, 2018).

Foreign Exchange Reserves

Table 3: Trend of Foreign Exchange Reserve

Year	Foreign Exchange Reserve
1985-86 to 1989-90	5,628.20
1990-91 to 1994-95	13,865.20
1995-96 to 1999-00	29,600.60
2000-01 to 2004-05	85,392.00
2005-06 to 2009-10	238,313.20
2010-11 to 2014-15	307,424.60
2015-16 to 2017 -18	38,4892.00

Source: rbi.org.in

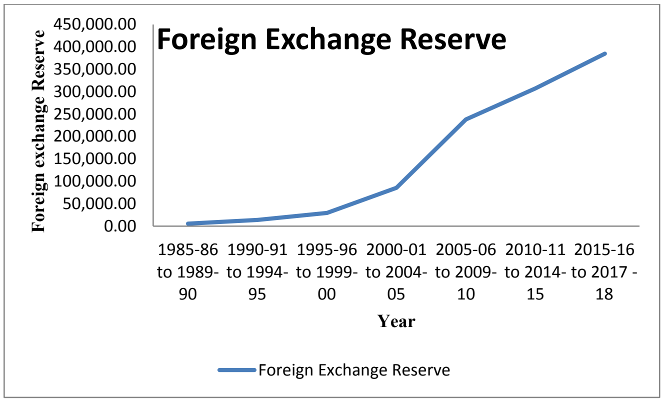

Fig. 3: Based on Table 3

Foreign exchange reserve crisis was one of the main reasons for the economic reforms taken by the government in 1991. During 1989-1990 the exchange reserve was very low which was left only for two week of external transaction. Reform measures taken by the government helped the exchange reserve to increase exponentially during first five year of economic reform from US$ 5628.20 Million to US$ 13865.20 Million. During second five year it increased from US$ 85392 Million to US$ 238313.20 Million due to fiscal and monetary policy taken by the government of India. After global financial crisis, growth of MNC's and allowing of FDI in insurance, tourism and other sector it further increased to US$ 307424.60 Million, but this growth slowed down due to euro-zone crisis and exchange rate volatility during 2010-2013 (Dua & Tuteja, 2015). In three years of the plan, exchange reserve growth reduced due to demonetization in 2016, uncertainty factor in market and exchange rate volatility during 2017-18.

Foreign Direct Investment

Table 4: Trend of Net Foreign Direct Investment

Year	Net Foreign Direct Investment
1990-91 to 1994-95	488.2
1995-96 to 1999-00	2,627.80
2000-01 to 2004-05	3,464.80
2005-06 to 2009-10	13,391.60
2010-11 to 2014-15	21,305.80
2015-16 to 2017-18	33,973.00

Source: rbi.org.in

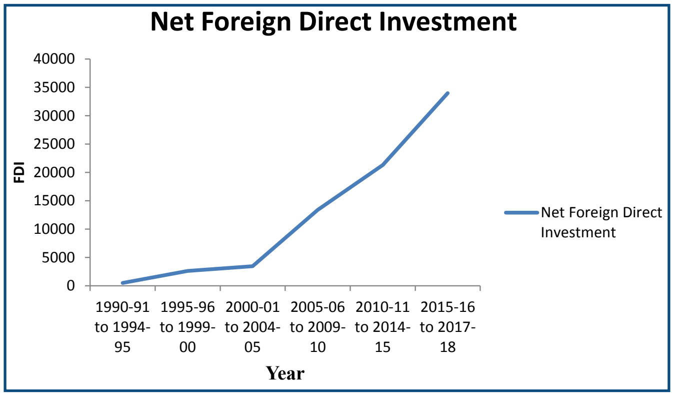

Fig. 4: Based on Table 4

Foreign direct investment flows are one of the major positive changes after economic reforms. During first five year of reform average FDI was very low, onlyUS $ 488.20 Million but after economic reform it increased by 6 times and reached at level of US$ Million. During 2005-2006 to 2009-2010 the growth of FDI was convincing, it increased to US$ 13391.60 Million. Last three years (table 4) show that FDI increased to US$ 33973 Million from US$ 21305.80 Million.

Globalization and Poverty Eradication

Table 5: National Poverty Estimates (% Below Poverty Line) During 1993-94 to 2011-12

Year	Rural	Urban	Total
1993-94	50.1%	31.8 %	45.3%
2004-05	41.8%	25.7%	37.2%
2009-10	33.8%	20.9%	29.8%
2011-12	25.7%	13.7%	21.9%

Source: Planning commission estimates 2014

As a result of the globalization, the economic growth in many countries has increased manifold. This has resulted in decrease in the poverty percentage in India. Globalization creates higher employment opportunities as well as improved economic efficiency of organisation which helps to reduce the poverty. After the liberalisation of Indian economy in 1991; the level of poverty has fallen significantly. National poverty estimated indicates that after the economic reforms, globalization has eradicated poverty in phased manner. The rate of poverty which was 50.1% in 1993-94 in rural areas has reduced to 41.8% and 25.7% respectively in 2004-05 and 2011-12. In urban areas the condition was much better as compared to rural areas. It was 31.8% in 1993-94 which further reduced to 25.7% and 13.7% respectively in 2004-05 and 2011-12. This clearly shows that there has been fall in the percentage headcount and globalization does have impact on poverty.

Globalization and Income Inequality

The process of globalization has resulted into huge economic progress. As a result of this economic progress, the distribution of income has increased to wider portion of the society resulting into decreasing income inequalities in various societies to some extent.

Table 6: Distribution of Income

Year	Top 1%	Top 10%	Middle 40%	Bottom 50%
1990	10.5%	33.5%	44.1%	22.4%
1995	13%	38.3%	40.8%	20.9%
2000	15.1%	39.9%	39.5%	20.6%
2005	19.3%	45.5%	36.1%	18.4%
2010	21.2%	52.2%	31.8%	16%
2015	21.3%	56.1%	29.2%	14.7%

Source : World inequality database, https://wid.world

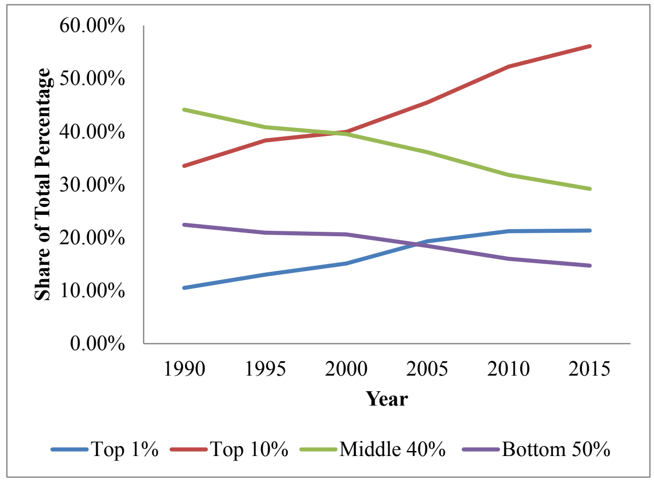

Fig. 5: Based on Table 6

Figure 5 indicates that in context of India, distribution of income is not equal. Share of top 1% and top 10% people in national income has been increasing since 1990. Whereas share of middle 40% and bottom 50% people has been decreasing due to demand of skilled worker and skilled entrepreneur which are very few in numbers. Small scale entrepreneur faces tough competition with MNCs and either they close their business or they hardly survive. From the table 6 it was observed that the share of top 1% was 10.5% in 1990 but it has increased to 21.3% in 2015. Share of top 10% people was 33.5% in 1990 which increased to 56.1% in 2015. Share of middle 40% people was 44.1% in 1990 which decreased to 29.2% in 2015 and share of bottom 50% people was 22.2% in 1990 which decreased to 14.7% in 2015. Thus after the globalisation and economic reforms the gap between poor and rich has increased.

Strategy of Globalization

Removal of Restriction on FDI

In 2005, India liberalized FDI policy which allowed 100% FDI in venture, 26% in insurance. In 2014 Government increased FDI upper limit from 26% to 49% in insurance sector. Government launched make in India in September 2014 under which FDI policy of 25 sectors was iberalized, Singh (n.d.).

- 100% FDI is permitted in Infrastructure for construction of cities and township, PTI. (2014).

- 100% FDI is permitted in automobile sector via automatic route (Invest India, 2012, 16th March).
- In pharmaceutical 100% FDI is permitted (Press Information Bureau 2014).
- In insurance 49% and in textile 100% FDI are allowed (PTI, 2015, June 15).

Export Promotion Measure

Foreign trade policy 2015-20 and other schemes provide promotional measures to boost India's export. These measures are discussed briefly.

Marketing Development Assistance (MDA) Scheme: Financial Assistance is available for exporters having an annual export turnover upto-30 crores for trade fair and trade promotion organization.

Zero Duty EPCG Scheme: Under this scheme import of capital goods is allowed for providing quality and services to made India export competitive country[1]. Establishment of Export Zone: After new economic policy number of export promoting zone and special economic zone were established. 100% FDI are allowed in EPZ and SEZ. EPZ are industrial enclave established in an international custom territory of which entire production is extended for export where as 50% of SEZ production are mandatory for export[2].

Economic Issue of Globalization

- Fall in share of Agriculture in GDP: In 1990-91 it was 34% which reduced to 19.55% in 2006-07 and further decreased to 17.32% in 2016-17 due to low priority of agriculture as compare to industrial and service sector by Government of India[3].
- Labour Mobility: International migration from India to other country increased from 0.16 Million in 1990 to 0.85 Million in 2008. It further reduced to 0.78 million in 2015-16[4].
- Financial market is now more volatile and fragile due to global consequences.

  For example:-

  - After Global financial crisis, Sensex decreased from 20000 point in January 2008 to 8000 point in October 2008[5].
  - Due to Euro zone crisis Sensex reduces from 17478.15 point in April 2012 to 16000- point in one month period[6].
- India's share of world export has not increased much. In 2004-2005 it was 0.9% which further increased to 1.68% in 2016-17[7].

Globalization as a Path of Success

There are some economic issues of globalisation such as labour mobility and number of migrated people from India has increased, share of agriculture in GDP has reduced, gap between rich and poor has increased. Yet the advantage of globalisation is more than their advantage. It boosts the international trade as well as domestic trade through competitive economic environment. It rebuilds the economy and has brought the country on path of success from the crisis of 1991. It reduces the number of poor people which reduced from 45.30% in 1990 to 21.9% in 2011-12[8]. Foreign investment and export increased in manifold. From foreign exchange crunch to surplus of exchange reserve has become possible due to globalisation. Therefore, we can conclude that yes there are some problems in implementation part of globalisation and some infrastructural issues, but even then it creates the path of success and progress for the nation.

Conclusion and Suggestions

Globalization boosts international trade, through economic efficiency and competitiveness. It has brought the country on the path of success from the economic crisis of 1991. GDP growth rate increased, volume of export and import enhanced, foreign direct investment improved due to investment friendly laws. From the balance of payment crisis to the huge surplus of exchange reserve, floor trading to ring-less and transparent stock-trading. It provided favorable trade environment for Multinational companies which created greater employment opportunities and competitiveness in Indian market. However, there is huge scope for improvement in coming years. India's overall export increased but share of India in world's export is very low. Government should take care of external factor such as exchange rate, international crisis and there is a need for attention towards agriculture sector for a sustainable and balanced development. Government needs to adopt export promotion measures and the size of import should be reduced, so that trade deficit of the country could minimize. At the current phase where the world has been affected by trade wars, the importance of protective policies is paramount. So the term globalization and its effect on economy should first be analyzed and then implemented with proper care, keeping its future consequences in mind.

References

Gosai, D. (2014). History of economic growth in India: International Policy digest. Retrieved from www.intpolicy.digest.com

Shaini. P (2014). Trend in India's export: A comparative study of pre and post reform. *Journal of Economics and Finance, 3*(2), p. 10.

Somalkar D. P. (2010). Impact of globalisation on Indian economy. *Journal of Art and Education, 1*(8), 1-11.

MukherSubho (n.d.). Five measures adopted to promote globalization in India. Retrieved from www.economicdiscussion.net

Sahiti A., Aliu M., & Sahiti, A. (2016). Review on Policy Developments of FDI in India. *Acta Universitatis Danubius of Economica, 13*(1).

Dua, P., & Tuteja, D. (2015). *Global recession and Eurozone debt crisis-impact on exports of China and India.* Centre for Development Economics Working Paper, (242).

Economic Survey. (2011-12). *International trade* (ch. 7, pp. 149-172).

Singh, M. (2018). Indian export over modi period, trade deficit highest since 2012-13. Retrieved from www.indiaspend.com

Singh, S. (n.d.). Government initiatives help revive FDI inflow after 3-year slump, up 54% in FY- 15, Indian express, 31 August 2015.

PTI. (2014). Government relaxes FDI norms for construction, real estate sector. *The Indian Express.*

Invest India. (2012, March 16). Automobile. Invest India.

Press Information Bureau. (2014). Review of the policy on Foreign Direct Investment in Pharmaceutical Sector – carve out for medical devices". Pib.nic.in. 24 December 2014.

PTI. (2015, June 15). FDI inflows in services sector increased by 46 percent in 2014-15: Department of industrial policy and promotion data. *The Economic Times.*

[1] Export Promotion Scheme, www.indiatradeportal.in

[2] SEZ and Export Promotion, business.mapsofindia.com

[3] Decreasing share of agriculture in GDP of India, gktoday.in

[4] Indian Labour Migration Update 2018, International Labour market

[5] Biggest fall in Indian stock market, rediff.com

[6] Eurozone crisis drags rupee, Sensex down. (2012, May 16). The Hindu,

[7] stats.wto.org

[8] Planning commission estimates 2014.