Costs and benefits of globalisation on india's economy

Introduction

In this essay we are about to go Global. Recent events on the financial market show how interdependent the world is. Common value should not be forbid but what about common losses. Who should be responsible for them? Many blame globalisation. What is it and does the world has other options to develop. Should we return to the strategies of the past? Or should we continue to live through an age of essential economic revolution? The term globalisation generates constant debates and controversies. But most of those who talk about globalisation are not even aware of its fundamentals.

The term globalisation is used rather vaguely. Globalisation is the one specific modality of international integration. Technology has definitely changed the means of way we live and also the ways in which the business is done in world today. The country by means of internet connection and enthusiastic workers can have access to unlimited jobs and industries. Let's imagine a picture of a world where all limitations are disappearing. A world where there are no boundaries and where competition can come from anywhere. That's the world where our future lies. To make this world a healthier place globalisation is going to play a very important role.

There are some who believe that we must try to turn our back on this novel world. They also think that the chance to preserve our living standard is to make a fortress around the country and stop trading and depend only on our own industries. But at present it is impossible to turn back the waves of globalisation but in doing so we can actually make ourselves worst off. So instead of fearing the future we should embrace it.

Globalisation and Structure of Indian Economy

The best definition of globalisation has been expressed through a poem by Canadian economist Gerald Helleiner- " The poor complain, they always do, but that is just idle chatter. Our system (globalisation) brings reward to all, at least to all who matter".

Broadly speaking the term globalisation is most definitely an economic process. Even though it is modeled as a way of ' bringing the world together', globalisation is all about the business community breaking down the remaining barriers to the free flow of its capital around the world.

It fundamentally means opening up of any country economy system and its integration among the other economies of the world. It involves liberalism and implementation of economic liberalization policies and reforms to promote the progression of private sector. The word globalisation itself means something new is happening to the world. The world is becoming a " single place" and experiencing global practices, values and technologies that are shaping people lives to the point that we are entering a " global age". For India, there are ample confusions about the costs and benefits of globalisation. Generally Indians think that as the nation state has laid down their arms to globalisation all the perils are hurting and hunting.

Data Source & Projection: VMW Analytic ServicesIndia's population is fast approaching a billion; this fact is easy to read but much more difficult to absorb – one thousand million people, each of whom sees the world in a slightly or radically different way from the others. Since Indian independence in 1947, the economy of India has increased almost exponentially (Refer Fig.

1). From early 1990s, different governments have adopted inward – oriented development strategies i. e. the state encouraging an economy through self sufficiency and a dominant role in the economy via state planning. Forces of demand and supply were not allowed to play any key role in resource allocation.

ImportsAfter 1991 balance-of-payments crisis, where foreign currency reserves fell to $1 billion & inflation went high to 17%, India laid numbers of stabilization-cum-structural adjustment measures with widespread effects. The main aim was to remerge the Indian economy with the world economy by reducing barriers to trade and investment, and deregulation of a highly bureaucratized economy. The Foreign Direct Investment was also encouraged to reduce the country’s reliance on debt-creating capital inflows, simultaneously renovating India’s ancient technologies and advancing easily into global markets.

Exports

India GDP growth from 1991 – 2007. Since then the real export growth rates of goods and services in 2006 and 2007 record high levels: 8. 6% and 9. 7% (Refer Fig. 2). The propellant growth of exports doubled India’s share in world exports of goods and services from 0. 5% in 1991 to almost 1. 7% in 2007. Even India imported 11. 4% more goods in 2006 and 13% in 2007 as compared to the average growth rate from 1995 to 2005 (11. 3%). As a result, India’s trade ratio of imports plus exports to GDP has twofold since 1991, from 16. 5% to 45% in 2007.

Regardless the unfinished reform agenda, India’s GDP growth (Refer Fig. 3) has increased > 9% over the past 3 years, by an average of 5. 8% annually during the period 1991-2004. It contributes nearly 2% to world GDP and around 1% to world exports of goods and services (Source: World Development Indicators). Consistent with excellent growth, per capita incomes were doubled from 1990 to 2007 and poverty dropped from 46% in 1986 to 36% in 2000. However, poverty remains a grave problem.

Recently several economists and lobbyists have compared Indian economy with that of China but its progress path has been significantly different from China’s. Indeed, it has been also very different from that followed earlier by Japan, Korea and the other Asian giants. Firstly, the recent economic rise in India is largely thanks to services rather than manufacturing sector. India has became a global player in several services sectors such as IT and business process outsourcing, while its manufacturing sector keep suffering from low productivity. Secondly, the 2/3rd of India’s population still rely on agriculture for a living as compared other Asian countries and thirdly, India try to remains closed to trade in comparison to other developing and emerging countries. Even FDI inflows have also ten folded in last two decades. It has been tripled since 2005 and in 2007 it was around $23 billion (Data Source: Government of India, Ministry of Finance, Economic survey). But India is not yet as present in the Central and Eastern Europe markets as China is. Its share in the European market was 0. 7% (2006), almost unchanged from 1990s. However, China’s share in these markets has increased sharply from 1. 3% in 1992 to 5. 7% in 2006 (Data Source: OECD).

Indian has the potential and should make the efforts to move from good growth to rapid constant growth. The problem in India lies in the spurring productivity which is badly affected by the low education and health reforms and also by the petite openness of the Indian economy. India's weak infrastructure has hurt the booming potential of Indian production. From undependable energy, lacking water supply to bad road and train conditions, infrastructure shortages have created high business costs across the sectors (Source : OECD, 2007c).

Benefits and Costs of Globalisation on Indian Economy

Globalisation has been a classical process with ups and downs. Its growth has been largely led by the technological forces in the fields of transport and communication. The flow of trade has been frequent and there are lesser barriers for the people across the geographical boundaries. There are less tax barriers and fewer limitations on fund flows. India is no exception to globalisation. In year 1991, when we were neck-deep in financial deficit, very high inflation (around 17%), balance of payments crisis and low industrial production, the World Bank and the International Monetary Fund (IMF) bailed us out with significant loans with assistant Structural Adjustment Program (SAP). This guided in Liberalisation, Privatisation and Globalisation.

Indian Economy has undergone many important reforms in the 1990's. The LPG model has helped the Indian economy to grow rapidly and become internationally competitive. From early 1991, a new epoch has dawned for India and its huge population. This formidable phase of economic evolution has had a wonderful impact on the overall India's economic development. All major sectors of the economy have improved dramatically and its effects over the last decade can hardly be ignored. Moreover, it has marked the dawn of the real integration of Indian's economy into World's economy.

Globalisation has created many employments & bought large investments to India. Our economy has been on the rise at good rates for the past few years & many new prospects have opened up for India. We have highly benefited from economies of scale. The change in global barriers has permitted the companies to profit from the largest & cheapest labor market, raw material and technology. Foreign businesses have significantly augmented their investments in Indian industries. The salaries of industrial labor have improved largely; therefore, the lock outs and strikes have declined sharply as labor is happy. Now day's business market has no boundaries and companies can promote their products globally. This has helped the Indian companies to lay hand on global technologies which has certainly increased our qualities of living standards. Indian Entrepreneur's has been more aware about the competitors, recent trends and quality of products. The competition between the global companies can be seen in the improve qualities of the brands and services to the customer.

Presently, we can talk about the story of two India's: We have the best of times; we have the worst of times. There is bright prosperity, there is high poverty. We have stunning 5 star hotels with dark ill-starred homes. Globalisation gave us everything, globalisation gave us nothing.

Although Rajiv Gandhi government, the sixth prime minister of India, introduced some economic reforms between 1985 -1989 but it was the

Narasimha Rao government, ninth prime minister of India from 1991-1996, that gave a exact shape and started the novel economic reforms in India.

Below are the highlights of some extreme benefits of globalisation on Indian Economy:

Gross Domestic Product (GDP) growth rate: The rate of increase of India's real GDP was low during 1980-90 (5. 6%) to 1993-2001 (7%). But in the last few years, the GDP annual growth rate in India has been remarkable i. e. 7. 5% (2003-2004), 8. 5% (2004-2005), 9% (2005-2006) and 9. 2% (2006-2007) (Ref Fig. 3). Present P. M. Dr. Manmohan Singh is certain to have a 10% increase in the GDP for 11th five year plan (2007 – 2012). In 2006-2007, the sectors contributing highest in GDP growth are Industry sector (26%), Service sector (55%) and Agriculture sector (19%) (Ref Fig. 4). The increase in GDP has in fact helped to increase the foreign exchange reserves from $39 billion (2000-01), $107 billion (2003-04), $145 billion (2005-06), $200 billion (2007-2008) to around $268 billion on 1st February 2011 (Source: IMF).

Foreign Direct Investment (FDI): Since early 2003, India's FDI promotion board is officially run by government i. e. Ministries of Economic and Finance. Since then there has been drastic reforms in the rules and regulations of FDI in India. The FDI is now acknowledged as a key driver of development in the country. India is ranked 2nd in international FDI in year 2010 behind 1st ranked China and ahead of Brazil & Russia and it will continue to be in the top 5 destinations to draw global investors during 2010-12 (Source: World Investment Prospects Survey 2009-2012 by UNCTAD (United Nations

Conference on Trade and Development)). India attracted cumulative FDI equity inflows of $122. 68 billion from mid 2000 to end 2010, according to the data released by the Department of Industrial Policy and Promotion (DIPP). In October 2010, the FDI inflows were $1, 392 million. The figure 5 on next page shows the India's top cities and sectors which attracted highest FDI inflows in Jan 2008 (Source: DIPP India). The main attractive sectors have been information technology, telecom, services, healthcare and telecommunications. India controls almost 45% of the global outsourcing market with income more than $50 billion.

Imports and Exports: The general idea of the independence movement in India (year 1940s), led by great M. Gandhi, was based on the hatred for anything foreign, especially the one originating from Britain. The imported goods were burnt on regular basis and everyone believed that everything can be produced home. The belief was that we can be self reliant and self dependent and import of goods can bring the foreign dominance. In 2009, 7 decades later India ranked 15th in world in terms of import volume and 22nd in the terms of export volume. In 2004 – 2005 our imports were $107 billion (Ref Table 1), a record increase of around 36% as compared to $79 billion in 2003 – 2004. The exports also jumped by 24% recording $79 billion as compared to $63 billion the previous fiscal. The oil imports increased by 19% and the import bill zoomed from $21 billion to $29 billion in two fiscal years. Other imports excluding oil were $77 billion in 2004 – 2005 that is 34% higher than $58 billion in 2003 – 2004.

Other Benefits: Information Technology (IT) and outsourcing has been given a special status in the growth of Indian economy. The reason may be that the government desires to present our country as a technological advanced nation and to achieve this they must encourage the IT sector. The term special status means that the sector and global / local investors will get many special advantages from the government. Furthermore, the impact of the global economies has influenced the Indian education system over the last few years. Improved educational institutions, hi- tech colleges, advanced schools are the fruits of globalisation. The colleges have implemented the developed teaching technologies, to make the students aware of the latest developments. India is in the 4th position in respect to market capitalization with $894 billion after the US ($17, 000 billion), Japan ($4800 billion) and China ($1000billion). India should soon cross the trillion $ mark.

Even though we have not so far reached “ the end of history” but globalisation has sure took us closer to “ the end of geography”. The globalisation has not always been fair. The cash flow over the last two decades has been very unsymmetrical. Every $1 of aid money to poor countries, the rich countries get $10. It has deepened the poverty and inequality. It has affected both the social and political stability among and within states. Capital rights are given more advantages over the labor rights. The trade and finance rule are unfair and this has had mixed effects on rich and poor countries. In India, the main casualties of globalisation are the poverty and the agriculture sector. Here are some costs which India paid because of globalisation:

Agriculture Sector: Agriculture has always been the strength of the Indian economy. It plays crucial part not only in providing food to people, as well as the supply of raw material to industries and to export trade. 60% of the

Indian population works in agriculture sector and however its contribution in GDP is only 20. 6%. India agricultural growth continued to drop down from 13% in 2003 to 1% in 2002-2003 (Source: agricoop. nic. in/Agristatistics). This set back in agriculture is in contrary to 6% expansion in Indian economy in last decade. The reasons of this decrease, according to Economic Survey 2006-07, are: less investments, disproportions in fertilizer use, low seeds replacement rate, a distorted incentive system and low post-harvest value addition. Indian farmers are offered almost no subsidiaries and very less help from government. The Indian government has taken no significant measures to negotiate with foreign companies to set up technologies for the farmer's assistance. All these factors have led to decrease in the income of the farmers and have increased the rural debts. In 2000, the farmer suicides were registered to 12% of total suicides in the country.

Poverty: Though globalisation has drastically improved our living standards but still it doesn't have the significant effect in improving the poverty. According to 2007 Forbes list, the number of billionaires in India has risen to 40 and yet there is 80% of India's population which lives on less than $2 a day. Nevertheless, Indian government is making lots of efforts to improve poverty in rural areas. They are trying to provide more facilities to the poorer. The 2005 World Bank estimation was that 41% of Indian population live below the international poverty line of $1. 25 a day. So India government has still a long way to go to improve the poverty situation of India.

Industry: The globalisation has raised a high competition between the foreign companies and domestic companies. As the foreign products being better, the people prefer to buy them instead of Indian ones. This has reduced significantly the amount of profit of India companies. The new technology has reduced the requirement of labor and thus resulted in the cost of their jobs. No doubts that the effects have been positive as well as negative but the Indian government should make such economic policies related to industry that are beneficial and not harmful.

Human trafficking and increase in diseases like HIV are also the very high cost paid for globalisation. And the pity is that women’s and children’s are among the most exposed to it.

Conclusions

Globalisation has provided India the opportunity to grow substantially. Though we have to be more careful on the whole as all the economies are linked together and crisis in one economy have drastic effect on others and recent events has confirmed that. But still globalisation has definitely helped India to become a better economy. We have the abilities and skills to adapt and change according to the flow of global market. In the end my keen hope for the betterment and the bright future of our country is to go out and face this “ globalising” world. I am certain that India of 2025 will be a different place. It will be much more leading force in the world economy, than 25 years ago or even at the start of the 21st century.