

# [Globalisation in india essay](https://assignbuster.com/globalisation-in-india-essay/)

India is a large, newly industrialised South Asian nation with a population of 1.

15 billion. Following India’s independence from the British Empire in 1947, its leaders adopted socialist inspired politics, as they blamed extensive regulation, public ownership and government intervention for India’s low level of economic growth. However, after the liberalisation of the economy in 1991 due to its near collapse during the Gulf War, India began to integrate into the global economy. As India adopted a market-oriented economy, various measures were implemented to break down the centrally planned system and drive future growth. This opening of the Indian economy has exposed the nation to both the positive and negative effects of globalisation. Globalisation refers to the increased connectivity and mobility of the worlds markets and businesses.

As a result of this, economic growth has surged, and India’s presence upon the international stage is ever mounting. Yet many of these reforms have come with unintended consequences. Globalisation-related environmental changes are rapidly destroying critical ecosystems while ageing infrastructure is struggling to facilitate urbanisation. India’s policies fail to recognize the long-term impacts of current reforms and without change, India will damage its future. As India began its transition into the global economy, it implemented various measures to improve its economic performance.

These multidimensional reforms targeted five specific areas; the agricultural sector, industrial sector, trade sector, financial sector and fiscal policies (M. Helen, 2008). Although agricultural sector reforms received less priority than other reforms they remain a major part of the Government’s amendments. The plans focused on improving research, strengthening infrastructure and removing domestic restrictions.

Agriculture is one of the largest sectors of the Indian economy (Encyclopedia of Nations, 2010), and provides one of the most lucrative sectors for foreign investment. Yet this sector remains underdeveloped. Restrictions on the existence of multi-brand multi national corporations (MNC) in India have prevented the agriculture sector from strong growth. Meanwhile, industrial sector reforms centred on improving competition and reducing the power of large monopolies.

One of the strategies employed to achieve these goals was the elimination of barriers of entry for new businesses. This saw the time it takes for a new business to start up falling from 89 days in 2003, to 33 days in 2007 (Earth Trends, 2010). The economy was also opened up to Foreign Direct Investment (FDI), which saw multi-brand retailers such as Woolworths invest in wholesale companies such as Infiniti Retail (M. Wade, 2009). The main feature of these industrial reforms was the removal of the License Raj, which was a scheme that prevented and restricted private companies from production. Other policies included the elimination of price control systems and the privatisation of industries reserved for the public sector such as airports and power.

The efficiency and management of firms has been improved through privatisation. It is expected that India will invest $1 trillion in the infrastructure sector between 2010 and 2019 (S. Wee, 2010), and this is increasingly becoming an appealing sector for foreign investment. In the past, the Indian Government has been unable to guarantee the implementation of infrastructure projects, however as a result of privatisation, many foreign investors are now ensuring the completion of projects. Trade reforms sought to encourage an increase in imports and exports, and reduce government intervention. This was done mainly through the reduction of barriers to trade, which included decreases in tariff levels and quotas.

Another approach the Indian government took was the ‘ managed’ float of the Rupee. This was partly aimed at enhancing India’s overseas appeal, as it was, at the time, overvalued (IMF staff papers, 2002). India’s liberalisation has also led to a gradual flow of MNCs into the country due to the controlled deregulation of FDI. However international investment in India is still restricted, as the government has been cautious to ease tariffs and quotas.

The Indian Government also prevents ‘ multi brand retailers’ from direct investment (M. Wade, 2009). This prevents large companies such as Wal-Mart from developing monopolies within the Indian market, and helps protect local industry. However, many local industries are becoming redundant, as they do not have enough resources to attract a higher-skilled labour force.

Financial sector reforms concentrated upon improving the functioning of the money and capital markets. The reforms targeted three key areas; the banking and insurance sectors, and capital markets. The reforms that had the biggest effect internationally were insurance policies. These policies were developed to encourage foreign investment. Private companies were only allowed to enter to insurance industry if they had at least a 26% investment in foreign equity (M.

Helen, 2008). Capital market reforms also had a slight effect internationally through the encouragement of foreign portfolio investment. Fiscal reforms sought to eliminate government debt, and stabilise the economy mainly through privatisation. The government sold many public sector organizations, and as a result has implemented strategies to improve the communication between public and private companies. The regulation within infrastructure sectors has reduced, and many foreign companies have been allowed to invest within industries such as power and telecommunications (A.

Dhas, 2008). Yet the opening up of India’s economy brings with it the advantages and disadvantages of globalisation. As India’s status as an international powerhouse grows, its influence on the world stage will only increase. India is heavily involved with the G20, World Trade Organisation and South Asian Association for Region Cooperation, in promoting relationships mainly through trade and investment. Currently, China is India’s largest trading partner, closely followed by both the United States and the United Arab Emirates (Consulate General, 2009).

Despite not being a part of many trade blocs, India signed a trade agreement with Association of South-East Asian Nations in early 2010 and is expected to form one with the European Union in December 2010 (SME Times, 2010). This will further reduce the barriers to trade within India and give the world enhanced market access of key Indian products. These recent developments show that India is still only in the early stages of its integration into the global economy. Following India’s economic transition, economic growth increased, leading to a surge in the demand for goods and services. This led to an increase in the supply, and in turn meant the demand for labour increased.

This macroeconomic cycle continued until unemployment fell to a mere 6. 8% in 2008 (Earth Trends, 2010). As a result of the GFC, this unemployment has increased to 13%, however as the global economy rebounds from its lows, unemployment is expected to again decline. Structural unemployment has however arisen within India, with certain occupations becoming redundant, while others are simply being replaced as companies utilize the latest technological developments. As seen in figure 1, India has sustained a high rate of annual growth since 1991 of over 6%, and between 2003 and 2009 that figure jumped to 8% (World Bank, 2010). These figures are driven by the services sector, which account for slightly more than half of its total output.

India managed to avoid the brunt of the GFC because its primary focuses still lie domestically in agriculture, however it was still impacted upon with GDP growth almost halving from 10% to just over 5%. This drop demonstrates that India has integrated into the global economy. The IT revolution within India has helped improve the efficiency of firms. Economies of scale are being achieved as companies maximize their production levels, and this has come about as a result of the availability of technology, and its improvements over time.

The offshoring of IT technology has mostly gone to India, because of its comparative advantage over the rest of the world. This advantage has arisen mainly due to its large English speaking labour force and the increasingly liberalized policy regime (S. Modwel 2006). However, amidst these advantages, many negatives have accompanied globalisation in India, and these are having adverse effects much of the Indian population. Exchange rates in India have been affected as the demand for the Indian Rupee increases.

As seen in figure 2, since the float of the Rupee, exchange rates have been steadily increasing. More recently, this has led to an appreciation of the Rupee, which is having an adverse effect exports (India Times, 2010). Although exports are increasing, they aren’t growing at predicted rates and this is being attributed to this appreciation. However, the increased value of the Rupee has had its positives, with more youths having the ability to seek overseas employment opportunities.

Globalisation has had a major impact on the distribution of income in India. As seen in figure 3, India’s Gini coefficient sharply increased over 5 points following the onset of its integration into the global economy, and currently stands at 36. 8, only 1 point behind the 1997 peak. This demonstrates that the influx of money following globalisation has mainly gone to the higher quintiles of the population, with the lower quintiles missing out. This increase in GDP has however helped decrease the number of Indians living below the poverty line. Figure 4 represents this major decline.

The distribution of income as a result of urbanisation is also becoming a major problem, with the income gap between equal citizens living in rural and urban areas widening. In 1990, just 20% of Indians lived in urban areas. That figure has jumped to 30% as Indians rapidly migrate towards cities for better employment opportunities that have been provided through MNCs and the growing demand for employment. An UN report recently indicated that 40% of India’s population could be living in urban areas by 2030. As seen in figure 5, the geographic inequality between rural and urban communities, has been worsening since it arose in 1995.

The major factor behind this restricted development is simply the lack of rural capital investment. Another impact of urbanisation lies in India’s underinvestment in infrastructure, which has meant that the urban movement of people is met with ageing systems that are unable to cope with the high population levels. This has led to an increase in the number of slums surrounding the major cities such as Bangalore, where 26% of the population live in Slums. These slums are concentrated areas of poverty, with poor literacy rates, heath care facilities and living conditions (S.

Madon 2005). Despite India recording high levels of economic growth, this is partially going to waste, due to high inflation, which has overvalued products. As a result of globalisation, India’s inflation rate is on an upward trend (Trading Economics, 2010). As seen in figure 6, from 2006 to 2010, Inflation in India has been rising, as the volume of output, productivity, and employment all increase. One of the main reasons behind this rise is the onset of higher inflationary pressure. The growth in disposable incomes has also increased inflation because of higher consumption.

The Indian Central Bank has implemented monetary policy via the raising of interest rates since early 2010 (VOA News, 2010) in an attempt to control inflation. This measure has worked in significantly reducing inflation from its high in January 2010, however it is only a short-term solution and the rapid growth in India means inflation will be a continual problem. There are environmental and social impacts on India and the world as a result of globalisation. Economic policies of the Indian government fail to recognise the importance of the environment for many Indians’ livelihoods, and the wider public is now suffering the consequences. Desertification is advancing upon many agricultural communities as a result of over-farming (Caritas, N/A). Over-farming is increasingly problematic, as the population grows at a faster rate that is sustainable.

The government’s investment in agriculture, has only led to more farms, and no change in efficiency. The government is also handing over critical ecosystems to industry, and the biodiversity of the region is systematically being destroyed (Equitable Tourism, 2009). India’s 2008 national mineral policy has only worsened the situation as more and more mining projects are cleared. This project has been driven by the increases in mineral demand, particularly from China. Since 1991, India’s carbon dioxide emission have more than doubled, and now India is the third biggest polluter of carbon dioxide, only behind China and the United States (Earth Trends, 2010).

This trend will only increase as the world turns to India as a source of goods and services and, in particular, minerals. These emissions are also being attributed to the recent increases in national disasters with monsoons only becoming more severe. India is still industrialising and its underdevelopment can be seen through the food industry where 40% of all food rots before purchase (M. Wade, 2009). Poor infrastructure and transport systems are seen as the sources of these figures, and as India further liberalises its economy, foreign investment opportunities, particularly in this sector, will only increase.

The strategies employed by the government to promote economic growth have succeeded, however their effectiveness in promoting development has been imperfect, with the distribution of income being uneven. Globalisation has come at a cost for many Indians, and without improved policies, the negative impacts of the reforms will have a detrimental effect upon not only future growth, but also future standards of living.