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Globalization in India- Its Present Trends and Prospects

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ABSTRACT: *Globalization means integrating the economy of a country with the rest of the countries of the world. It is the process of international integration arising from the interchange of world views, products, ideas and other aspects of culture. In the Indian context this implies opening up the economy to foreign direct investment by providing them several facilities, removing constraints and obstacles to the entry of multinational corporations in India, allowing Indian companies to set up joint ventures abroad, carrying out massive import liberalization programmes through the abolition of import restrictions etc. By means of LPG, there is a significant increased in in-equality and environmental degradation. After Globalization, The present condition of Indian agriculture has not improved so much and the share of agriculture to GDP is only 17%. The number of landless families has increased and farmers are still committing suicide. There is an urgent need for study the effects of LPG in the present Indian context. This paper simply analyzes the merits, demerits and policy implications by the Govt. for future planning.*

KEYWORDS: *MNCs, LPG, FERA, Liberalization*

I. INTRODUCTION

According to Robertson (1992), "Globalization as a concept refers both to the compression of the world and the intensification of consciousness of the world as a whole." The growing interdependence of countries worldwide through the increasing volume and variety of cross border transactions in goods and services and of international service capital flows, and through the more rapid and widespread diffusion of technology. Globalization simply means the interconnection and interdependence among the countries of the world in terms of economic, financial, trade and communication integration with free transfer of capital, goods, and services across the national frontier.

Seeds of the globalization process were sown in the early eighties as many concessions were given to foreign capital, MNCs were allowed to enter a number of crucial sectors to which their entry was previously banned or restricted, provisions of FERA were not strictly enforced, import liberalization process was accelerated. However the real thrust to the globalization process was provided by the new economic policy introduced by the government of India in July 1991at the behest of the IMF and the World Bank. In all recent discussion, therefore, globalization has been identified with the policy reforms of 1991 and the subsequent extensions of these reforms. The establishment of the WTO is likely to give a further impetus to the process of globalization. We know that the balance of payments position of India worsened in 1991. Inventor's confidence in Indian economy was shaken and there was outflow of capital. Credit rating of India came down and gold had to be pledged for getting loans. Default on dept servicing appeared imminent and the Govt. of India was pushed to the wall. Default could be avoided only if credit was made available from the IMF and World Bank. Assistance was indeed made available by these institutions but on their own terms and conditions. These terms and conditions entailed the adoption of a stabilization and structural adjustment programme by India.

The stabilization and structural adjustment program of the IMF –World Bank had the following three components: (a) stabilization which basically implies cutting down fiscal deficit and the rate of growth of money supply, (b) domestic liberalization which consists of relaxing restrictions on production, investment, prices etc., and (c) external sector liberalisation or relaxing restrictions on international flow of goods, services, technology and capital. Globalisation is identified with (c) i.e. external sector liberalisation. However, it needs to be emphasized that success on (a) and (b) fronts is crucial for the success of (c). The above success shows that the conditions prevailing in 1990 and 1991 pushed India into adopting the structural adjustment programme of the IMF and World Bank and globalization is only a part of the structural programme. The main policy measures initiated as steps towards globalization can be described under three broad headings: (i) Exchange rate adjustment and rupee convertibility, (ii) Import liberalization and (iii) Opening up the economy to foreign capital. Let us consider these three steps one by one.

II. EXCHANGE RATE ADJUSTMENT AND RUPEE CONVERTIBILITY:

The most important measure for integrating the economy of a country with the global economy is to make its currency fully convertible i.e. to allow it to determine its own exchange rate in the international market without official intervention. The process was adopted in a phase manner. The Govt. has progressively moved towards full convertibility. The budget for 1992-93 introduced partial convertibility of the rupee. Under this system a dual exchange rate system was introduced where 40% of foreign exchange earnings to be surrendered at the official exchange rate while the remaining 60% were to be converted at a market determined rate. The 1993-94 budgets introduced full convertibility on trade account and as a result the dual exchange rate system was abolished. In 1994-95 India achieved full convertibility on current account which was defined as: (i) all payments due in connection with foreign trade, current business including services and normal short term banking and credit facilities; (ii) payments due as interest as loans and as net income from other investments, (iii) payments of moderate amounts for amortization of loans; (iv) moderate remittances for family living expenses.

III. IMPORT LIBERATIZATION:

Since the eighties import liberalization has been introduced in India and the process strongly emphasized in nineties. The 1992-97 export- import policy allowed free import of all items including capital goods. Import duties in a wide range of commodities were drastically reduced. The strong argument in favour of import liberalization is that competition from imports would improve efficiency quality and technology. Besides it will make international quality capital goods and inputs available to our export industries and will increase their competitive strength in the international markets.

IV. OPENING UP TO FOREIGN CAPITAL:

In a bid to attract foreign capital and integrate Indian economy with the global economy the Govt. of India has thrown open the doors to foreign investors. Various incentives and facilities have been offered to the foreign investors and non-resident Indians in the new economic policy. Foreign equity participation up to 51% in service areas including hotels and tourist related areas has been allowed. FERA companies have been allowed to use their trade marks in India and carry on any activity of a trading, commercial or industrial nature. Repatriation of profits by foreign companies has been allowed 100% foreign equity participation has been allowed for setting up power plants in the country. FERA companies are now deal in immovable property in India. Disinvestment of equity by foreign investors no longer needs to be at prices determined by the RBI. Reputed foreign institutional investors (FIIs have been allowed to invest in Indian capital market subject to registration with SEBI and approval of RBI. NRI investment up to 100% equity has been allowed in export houses, trading houses, hospitals, sick industries, hotels etc. Foreign investors can invest in Indian companies through the Global Depository Receipts route without any lock-in period. These receipts can be listed on any of the overseas stock exchanges and denominated in any convertible foreign currency.

V. EFFECTS OF GLOBALIZATION:

Several favorable effects of globalization have been claimed by the Govt. Some of these can be listed as follows:

[1] Foreign exchange reserves which had been fallen to an alarmingly low level in 1991 have now improved to a comfortable level.
[2] Exporters are responding well to sweeping reforms of exchange rate and trade policies. Though imports have also increased yet the balance of payments situation is comfortable.
[3] The fears expressed in some quarters that our trade policies would generate a disruptive flood and imports and weaken our economy had been shown unfounded. Liberalization and openness have actually increased our self reliance. Exports now finance over 90% of imports, compared to only 60% in the latter half of the eighties.
[4] The current account deficit in the balance of payments was over 3% of GDP in 1990-91. It has decreased to about 1.5% of GDP in 1996-97.
[5] Contrary to what many feared, the exchange rate of the rupee has remained remarkably steady despite the introduction of full convertibility first on trade account and then on current account. Foreign exchange is flowing through legal channels in ample quantities instead of through illegal (hawala) channels as earlier.
[6] International confidence in India has been restored. As a result, foreign direct and port folio investment has increased rapidly in the last few years.
[7] Free trade between countries increases i.e. goods and people are easily transported with more easiness and speed.
[8] Global mass media connects all the people in the world and the interdependence of the nations-states increases.

[9] The investment of developed countries on developing countries (Where capital shortage is an obstacle of growth) increases.
[10] It is necessary to point out some unfavorable effects of globalization mentioned by several economists.
[11] The euphoria over substantial foreign exchange reserves is not fully justified as a substantial part of theses has been built up by borrowings from abroad. Such borrowed reserves have to be serviced and eventually paid back. This is likely to impose a serious burden of the economy. If export earnings fail to increase as rapidly as projected by the Govt. due to some reasons, the country might enter into a 'debt trap'.
[12] The policy of globalization is likely to result in a sharp increase unemployment levels. In coming years, as MNCs gain increasing control over industries and resort to a large scale use of capital incentive technology, many workers are likely to be displaced. The large domestic companies will also have to follow suit in a bid to remain competitive. A large number of small scale units may also find it difficult to survive the onslaught of MNCs and may wither away leading to still more labour retrenchment and unemployment.
[13] Though the Industrial Policy of 1991 clearly demarcated the priority areas for direct foreign investment and import of technology, the Govt. under pressure from foreign investment lobbies and multinationals is adopting an open door policy. Increased skilled and non-skilled jobs from developed countries to developing countries increased. Consequently we have opened the door for multinationals in consumer goods of elitist consumption.
[14] An analysis of foreign investment flows for the period 1991-92 to 1995-96 reveals that direct investment accounted for 31.5 % while portfolio investment accounted for 68.5%. This portfolio investment is of a speculative nature and is hot money which can take to flight in a period of political and economic uncertainty. It was not wise on the part of the Govt. to permit portfolio investment because this has only strengthened the foreign business firms to control the share market.
[15] MNCs after their entry are rapidly increasing their share holding in Indian companies and are thus swallowing Indian concerns. If indiscriminate entry of MNCs is not restrained, they might soon dislodge the top Indian business houses and control the commanding heights of the economy.

VI. CONCLUSION:

In conclusion it can be said that while foreign investment and advanced technology are certainly needed, these must be sought on our terms that would benefit the Indian economy both in the short-run and in the long-run. In the early nineties the Indian economy faced a major crisis that led to the foreign loans. For sustaining the economy must be grow at the rate of 9-10 %, boosting agricultural growth, extending industries, empowering the population and protecting the domestic industries. In order to make the globalization process smooth, privatization and liberalization policies are moving as well. Various economic experts concluded that India and China will rule the world in the 21st century. In terms of purchasing parity India is now the 4th largest economy may overtake Japan and becomes the 3rd major economic power within next 10 years.

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