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Impact of Globalization on Developing Countries and India

Sikander Singh
Student
Department of Political Science
S.P.N. College, Mukerian
Distt. Hoshiarpur, Punjab, India
sikander0012@gmail.com
Mobile: 09915611155

Abstract

Globalization has become a hot topic in contemporary society. The advantages and disadvantages of globalization on the economic condition of India and other developing countries will be reviewed by examining trade practices and the gross domestic product. Using this knowledge, a globalizing economy must evaluate its domestic policy in relation to the policies and developments in the rest of the world.

Key Words: globalization, India, export, import, economy

Introduction

Globalization is the new buzzword that has come to dominate the world since the nineties of the last century with the end of the Cold War and the break-up of the former Soviet Union and the global trend towards the rolling ball. The frontiers of the state with increased reliance on the market economy and renewed faith in the private capital and resources, a process of structural adjustment spurred by the studies and influences of the World Bank and other International organizations have started in many of the developing countries. Globalization has brought in new opportunities to developing countries. Greater access to developed country markets and technology transfer promised to improve productivity and increase living standards. But globalization has also thrown up new challenges like growing inequality across and within nations, volatility in financial markets and environmental deteriorations. Another negative aspect of globalization is that a great majority of developing countries remain removed from the process. Until the nineties the process of globalization of the Indian economy was constrained by the barriers to trade and investment liberalization of trade. Investment and financial flows initiated in the nineties has progressively lowered the barriers to competition and hastened the pace of globalization.

Though the precise definition of globalization is still unavailable a few definitions are notable. Stephen Gill (1997) defines globalization as the reduction of transaction cost of transborder movements of capital and goods thus of factors of production and goods. Guy Brainbant states that the process of globalization not only includes opening up of world trade, development of advanced means of communication, internationalization of financial markets…population migrations and more generally increased mobility of persons, goods, capital, data and ideas but also infections, diseases and pollution (Goyal, 2006).

Impact on India

India opened up the economy in the early nineties following a major crisis that was led by a foreign exchange crunch that dragged the economy close to defaulting on loans. The response was a slew of domestic and external sector policy measures partly prompted by the immediate needs and partly by the demand of the multilateral organizations. The new policy regime radically pushed forward in favor of a more open and market oriented economy.

Major measures initiated as a part of the liberalization and globalization strategy in the early nineties included scrapping of the industrial licensing regime, reduction in the number of areas reserved for the public sector, amendment of the monopolies and the restrictive trade practices act, start of the privatization program, and reduction in tariff rates which were changed to market determined exchange rates. Over the years there has been a steady liberalization of the current account transactions. More and more sectors opened up for foreign direct investments and portfolio investments facilitating entry of foreign investors in telecommunications, road, ports, airports, insurance and other major sectors.

The Indian tariff rates reduced sharply over the decade from a weighted average of 72.5% in 1991-92 to 24.6% in 1996-97. Though tariff rates went up slowly in the late nineties it touched 35.1% in 2001-02. India is committed to reduced tariff rates. Peak tariff rates are to be reduced to the minimum with a peak rate of 20% in another 2 years. Most non-tariff barriers were dismantled by March 2002, including almost all quantitative restrictions.

India is Global

The liberalization of the domestic economy and the increasing integration of India with the global economy have helped step up gross domestic product (GDP) growth rates which picked up from 5.6% in 1990-91 to a peak level of 77.8% in 1996-97. Growth rates have slowed down since the country has still been able to achieve 5-6% growth rate in three of the last six years. Though growth rates has slumped to the lowest level of 4.3% in 2002-03 mainly because of the worst droughts in two decades; the growth rates are expected to go up close to 70% in 2003-04. A global comparison shows that India is now the faster growing country after China.

This is a major improvement given that the growth rate in India in the 1970's was very low at 3% and the GDP growth in countries like Brazil, Indonesia, Korea, and Mexico was more than twice that of India. Although India's average annual growth rate almost doubled in the eighties to 5.9% it was still lower than the growth rate in China, Korea and Indonesia. The increase in GDP growth has helped improve India's global position. Consequently, India's position in the global economy has improved from the 8th position in 1991 to 4th place in 2001 when the GDP is calculated on a purchasing power parity basis.

Globalization and Poverty

Globalization in the form of increased integration through trade and investment is an important reason why much progress has been made in reducing poverty and global inequality over recent decades. But it is not the only reason for this often unrecognized progress. Good national polices, sound institutions and domestic political stability are attributed to the progress as well. Despite this progress, poverty remains one of the most serious international challenges faced. Of the 4.8 billion people that make up the developing world, approximately 1.2 billion of the people still live in extreme poverty. But the proportion of the world population living in poverty has been steadily declining and since 1980 the absolute number of poor people has stopped rising and appears to have fallen in recent years despite strong population growth in poor countries. If the proportion living in poverty had not fallen since 1987 alone, a further 215 million people would be living in extreme poverty today.

India has to concentrate on five important areas to achieve this goal. The areas include technological entrepreneurship, new business openings for small and medium enterprises, the importance of quality management, new prospects in rural areas and privatization of financial institutions. The manufacturing of technology and management of technology are two areas of significance in the country as well.

There will be new prospects in rural India. The growth of Indian economy very much depends upon rural participation in the global race. After implementing the new economic policy the role of villages received its own significance because of its unique outlook and branding methods. For example, food processing and packaging are one of the areas where new entrepreneurs can venture. It may be organized in a collective way with the help of co-operatives to meet the global demand.

Understanding the current status of globalization is necessary for setting the course for the future. For all nations to reap the full benefits of globalization it is essential to create a level playing field. President Bush’s recent proposal to eliminate all tariffs on all manufactured goods by 2015 will help achieve this goal. In fact it may exacerbate the prevalent inequalities. According to the proposal, tariffs of 5% or less on all manufactured goods will be eliminated by 2005 and higher than 5% will be lowered to 8%. Beginning in 2010, the 8% tariffs will be lowered each year until they are eliminated by 2015.

GDP Growth Rate

The Indian economy is passing through a difficult phase caused by several unfavorable domestic and external developments. Domestic output and demand conditions were adversely affected by poor performance in agriculture in the past two years. The global economy experienced an overall deceleration and recorded an output growth of 2.4% during the past year. Growth in real GDP in 2001-02 was 5.4% as per the Economic Survey in 2000-01. The performance in the first quarter of the financial year is 5.8% and the second quarter is 6.1%.

Export and Import

India's export and import in the year 2001-02 was to the extent of 32.572 and 38.362 million respectively. Many Indian companies have started becoming respectable players in the International scene. Agriculture exports account for about 13 to 18% of total annual export of the country. In 2000-01, agricultural products valued at more than US$6 million were exported from the country of which 23% was contributed to the marine products alone. Marine products in recent years have emerged as the single largest contributor to the total agricultural export form the country accounting for over one fifth of the total agricultural exports. Cereals (mostly basmati rice and non-basmati rice), oil seeds, tea and coffee are the other prominent products each of which accounts for nearly 5 to 10% of the countries' total agricultural exports.

Where does India stand in terms of Global Integration?

India clearly lags in globalization. There are a number of countries that have a clear with China leading the way then a large portion of the far Eastern portion of Asia and Europe. A few indicators which reveal how far India lags behind are noted below:

- Over the past decade FDI flows into India have averaged around 0.5% of GDP against 5% for China and 5.5% for Brazil. Whereas, FDI inflows into China now exceeds US $50 billion annually. It is only US $4 billion in the case of India.
- Consider global trade – India's share of world merchandise exports increased from .05% to .07% over the past 20 years. Over the same period China's share has tripled to almost 4%.
- India's share of global trade is similar to that of the Philippines with an economy 6 times smaller according to IMF estimates. India under trades by 70-80% given its size, proximity to markets and labor cost advantages.
- It is interesting to note the remark made last year by Mr. Bimal Jalan, Governor of RBI. Despite all the talk, we are nowhere close to being globalized in terms of the commonly used indicators of globalization. In fact we are one of the least globalized among the major countries – however we look at it.
- As Amartya Sen and many other have pointed out that India, as a geographical, politico-cultural entity has been interacting with the outside world throughout history and still continues to do so. It has to adapt, assimilate and contribute. This goes without saying even as we move into what is called a globalized world which is distinguished from previous eras by faster travel and communication, greater trade linkages, denting of political and economic sovereignty and greater acceptance of democracy as a way of life.

Conclusion

The implications of globalization for a national economy are numerous. Globalization has intensified interdependence and competition between economies in the world market. Interdependence is reflected in the trading of goods and services and in the movement of capital. As a result, domestic economic developments are not determined entirely by domestic policies and market conditions. Rather, they are influenced by both domestic and international policies and economic conditions. It is evident that a globalizing economy, while formulating and evaluating its domestic policy cannot afford to ignore the possible actions and reactions of policies and developments in the rest of the world. The constraint of policy options available to the government implies loss of policy autonomy to some extent in decision-making at the national level.

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