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GLOBALISATION IN INDIA: ISSUES AND CHALLENGES

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Abstract

Globalisation means integration of economies of different countries in a new economic order. It means growth of business so as to cover the entire world within its fold. Shri P.V. Narasimha Rao's Government assumed office in June 1991 and the New Economic Policy was initiated in India on 24th July, 1991. The present paper is an attempt to evaluate the economic policies implemented in India in the last two decades since 1991 till date and its resulting effects on the Indian economy in general and on the Indian populace in particular.

Objectives of the Study:

The following are the various objectives of the present study:

1. To study the various facets of liberalization and globalization of Indian economy.
2. To suggest suitable steps in order to promote the economic growth in the Indian economy.
3. To recommend strategies so that the fruits of development reaches to the last person in the society.

Introduction:

According to the World Bank, "Globalisation" means:

(a) Gradual abolishment of import control over all items including consumption goods;

(b) Reducing the rate of import duty; and

(c) Privatizing public sector enterprises.

Globalisation in simple language means trade through the globe. It means that one particular country links its economy with the world's economy by liberalising and globalisation of its economy. Globalisation means trade which takes place through the globe. It is to a linking of one country's economy with the world economy. In India it is a new concept. It is a continuous process. This process has already benefited developed countries, now it is for developing countries. So if a country enters itself in this process, it will surely be benefited and will develop herself at the global level.

Global Economic Order - Establishing New Relationships:

The new global economic order establishes new relationship in the world:

(a) Climate, Culture and Natural Resources are not crucial determinants of progress but trade, market and entrepreneurship.

(b) There is a high correlation between market friendly policy approach, increasing physical capital and economic rate of return.

Globalisation and Global link:

(a) The growth of cross-border economic activity has changed the structure of economies of countries.

(b) The scope and pace of change can be monitored along four important channels: trade in goods and services, financial flows, the movement of people and the diffusion of technology and knowledge.

(c) Developing economies still account for less than one-third of the global trade.

(d) People have become more mobile (i.e. More than 800 million people traveled to foreign destinations in 2005, nearly triple the number in 1980).

(e) International phone traffic, measured in minutes, increased more than four-fold between 1995 and 2005.

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Shri P.V. Narasimha Rao's Government assumed office in June – 1991.

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New Economic Policy (NEP) was initiated on 24 – July – 1991 at the instance of IMF and World Bank.

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Stabilisation and Structural Adjustment Programme of IMF – World Bank

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Outward – Oriented Policy

Outward – Looking Policy

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Liberalisation, Marketisation and Globalisation (LMG)

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Liberalisation, Privatisation and Globalisation (LPG)

Reforms in Industrial Sectors in India:

The New Economic Policy (NEP) was announced on 24th July, 1991 by Dr. Manmohan Singh the then Union Finance Minister in the cabinet of Shri. P. V. Narasimha Rao, the then Prime Minister of India. Under the NEP, Industrial Sector was among the first sectors to be liberalized in India in a series of measures. Industrial licensing has been abolished except in a small number of sectors where it has been retained on strategic considerations. The reforms have substantially reduced the industrial licensing requirements, removed restrictions on expansion and facilitated easy access to foreign technology and foreign direct investment.

Strengths (+)	Weaknesses (-)
1) Abundant availability of raw materials. 2) Cheap Labour availability	1) Limited availability of finance. 2) Labour intensive technology. 3) Low productivity efficiency. 4) High cost of production. 5) Quality not as per international standards. 6) Lack of professional Skills of Management.
Opportunities (+)	**Threats (-)**
1) Opening up of world market for domestic entrepreneurs. 2) Spreading the risk of business. 3) Establishing good bi-lateral relationships.	1) Dominance of MNCs and TNC's mainly from developed countries. 2) Competition is stiff. 3) heaper foreign goods may kill the domestic competition. 4) Closure of domestic enterprises will lead to unemployment.

Turnaround Strategy- As a part of Economic Liberalisation:

India's Economic Reforms process covering all the sectors:

(a) Increased role for the private sector in the industrial development.

(b) Minimal State (Government) intervention in the economic activity.

(c) Dismantling of controls and regulations on production and moving to a more open and competitive economy.

(d) Building up an outward looking economy through increased focus on exports. Exports are given first priority over imports. Hence India's earlier Export-Import (EXIM) policy is now named as Foreign Trade Policy (FTP).

(e) Persuading Foreign Direct Investment (FDI) as against permitting FDI in the past i.e. as in the pre-1991 era. FDI's are welcome since they bring in the much needed capital accompanied by latest technology in the Greenfield or Brownfield projects resulting in faster economic growth in developing countries.

(f) Liberal trade policies were set-in replacing the quotas (quantitative controls) with import duties.

Opposition from the Indian Society towards the NEP Policy:

There was a strong opposition for the NEP policy initiated by Government of India due to the following reasons:

(a) Resistance to Change: The traditional mind-set of the people is difficult to be changed. There is always a resistance to change to new ideas and policies. People were reluctant to accept the new changed regime and they resisted to such a sudden and drastic changes incorporated in the protectionist policies.

(b) Job Loss: The NEP and the resulting disinvestment policy brought in Voluntary Retirement Scheme (VRS) which led to loss of job, loss of source of income and livelihood for the families and cuts in the compensations of the workers. The VRS was later on followed by Compulsory Retirement Scheme (CRS). This pushed the people into more poverty and unemployment. The poor became much more poorer. Hence the divide between the rich and the poor further increased.

(c) Social Security: Social Security measures such as family pension, pension, gratuity, provident fund, unemployment allowance, compensation for loss of jobs/ limbs/ life, etc were totally discontinued for the workforce. All this was done under the pretext of cost cutting and cost reduction programmes. The State/ Government of India slowly withdrew from providing social security measures to its population. Thus started the "Jungle Rule" of "Might is Right". The rich enjoyed and the poor suffered.

Globalisation and Emerging Market Economies (EMEs):

In the present days instead of developing nations the term Emerging Market Economies (EMEs) is used popularly in the economics literature. Countries in Asia, South Africa, Latin America are categorized not as developing or less developed or under developed but as Emerging Market Economies (EMEs) whereas Canada, US and European countries are labeled as Developed Countries of the world. Hence there are only two terms Developed Economies and Emerging Market Economies. Some of the points relating to Emerging Market Economies (EMEs) are as highlighted below:

a) EME as economy with low-to-middle per capita income levels.

b) EMEs are characterized as transitional i.e. in the process of moving from a closed to an open market economy and embarking on an economic reform program that leads to a stronger and more competitive economic performance simultaneously to higher levels of transparency and efficiency in the functioning of the factor markets including the financial markets.

c) EMEs are gradually transiting from the developing to the developed status.

d) EMEs are the countries that are restructuring their economies.

e) EMEs are moving towards greater market orientation.

f) Thus, EMEs are offering a wealth of opportunities in trade, technology transfers and investment.

India as a Global Manufacturing Hub:

The Indian manufacturing sector is growing at 10 per cent and its current share is 17 per cent of GDP. 30 per cent of GDP which is the standard for most developing countries. According to study conducted by Boston Consulting Group (BCG) and the Confederation of Indian Industry (CII), India's share of global manufacturing output is likely to rise over the next couple of decades. India has a capacity to become world manufacturing leader in sectors such as Engineering, Construction, Steel, Industrial machinery, Chemicals and Petrochemicals, Plastics, Automotive and Auto ancillaries.

Indian Multinationals Going Global:

Indian industries have grown wings. Globalisation has given a new meaning and dimension to corporate India. Many Indian firms have embarked on the global path, leading to the emergence of the Indian multinational companies. Indian Industries have crossed domestic frontiers and move to international markets abroad in a very short time.

Indian multinationals entered into multiple industries such as: Pharma, Automobile, Hotels, Textiles, Engineering, Entertainment, etc. Economic integration across countries has created a global market for different types of products and services. It has given companies an access to the world's best resources, cheap but talented labor, large market in terms of size, vast capital market, lowest cost suppliers of inputs. Global operations create greater specialisation, higher scale, an ability to integrate over a wider geographic area. Indian multinationals going global are market leader in their respective sectors. Indian multinationals have established a global presence in exports, foreign investments, Greenfield investments and acquisitions. Some of the Indian MNC's have effectively competed in global markets has been by achieving scale, by investing in global size and capacities.

Lessons to Learn from Indian MNC's:

Indian MNC's focus on their core competency. Some of them generate internal accruals or a few of them generate external finances and undertake funding of their globalisation plans. Indian MNC's need to expand their global reach by developing vision, capacity, management in order to succeed. There are innumerable factors which make us believe that the Indian economy will continue to grow unabated. They are:

(a) The robust growth in Index of Industrial Production (IIP) in the current fiscal despite higher base.

(b) Rising consumer demand depicted by the sustained growth in earnings of corporate India.

(c) Good agricultural growth prospects.

(d) Continuation of the flow of fresh capital investments shrugging aside an increase in the interest rate.

(e) There was a 13.6 percent rise in April 2007 in industrial growth against a healthy 9.9 percent in April 2006.

(f) The investment boom which started in the middle of 2003-04 continues. Fresh investment worth Rs. 2.9 lakh crores in the June 2007 quarter, taking outstanding investments in India to a record high of Rs. 47 lakh crore.

(g) April-May 2007 recorded an average growth in exports of 20.4 percent in dollar terms.

(h) Indian industry and services was set to grow by 9 percent and 10 percent respectively.

(i) Agricultural growth expected to be slightly higher than the last year, at three percent, helped by good monsoon rains.

(j) Inflation eases off substantially from alarming level of 6.6 percent down to less than 4 percent.

(k) Supply constraints disappear in certain primary articles and manufactured products.

(l) Less impact and early recovery from the US Sub-Prime Crises and the resulting Global Financial Meltdown.

Vision for India- 2020:

India has to be made a Developed Country by 2020 as per *Vision 2020* of *Former President A.P.J. Abdul Kalam* so that India can take the lead and show the path to the world.

Building Blocks: Vision of Emerging India 2020:

Responding to the trickiest moments of the current transitional pains and resolving fundamental dilemmas will be the immediate task. Let us recall the resonant words of our current Prime Minister *Dr. Manmohan Singh* - releasing the book on "Re-Emerging India" authored by *Dr. Narendra Jadhav*, Former Vice-Chancellor of University of Pune and currently Member of Planning Commission, Government of India, he said: "India is presently engaged in the process of recovering its lost space in the global economy, to re-emerge as another engine of global economic growth … …. However, for this process to be speeded up, we have to pay greater attention to questions of equity and social justice just as we continue to pay attention to issues of modernisation and liberalisation and de-bureaucratisation of our economy ... …. And this we must do within the framework of a plural democracy. This is not an easy task … … Few countries in the world have attempted it, fewer have succeeded. Indeed, no country as large as ours has ever done so. But this I believe, is the only way we can move ahead … …"

Elsewhere, he has also asserted that: *"We look forward to the process of economic development transforming the nature of political discourse in our region."*

Key Building Blocks for India Vision - 2020:

(a) Calibrated economic reforms.

(b) High rates of domestic savings and investments.

(c) Programs of infrastructure investments initiated jointly by the public and private sectors.

(d) Demographic dividend 1/6 th of the world population residing in India.

(e) Rising aspirations alongwith purchasing power of the middle-class population.

(f) Spread and depth of Indian entrepreneurship.

(g) Global recognition gained by India as a responsive economic power.

Stumbling Blocks in Strategizing Our Vision of India - 2020:

*The following points are the areas of serious concern which acts as s*tumbling blocks in strategizing Our Vision of India - 2020:

(a) **Poverty:** There are high levels of absolute poverty prevailing in the nation. The divide between the rich and the poor is fast increasing which is an area of serious concern. On one hand Mukesh Ambhani stays in a multi-storied residential complex in a posh location in Mumbai city which is like a palace of Maharaja of the olden times and on the other hand in the same city of Mumbai there are lakhs of slum dwellers who don't have the privilege to even eat a single square meal.

(b)**Employment:** There is an inadequate employment growth happening in India. Certain sectors are booming such as BPO, KPO, call centres, IT, Banking, Media and Entertainment, Insurance, Tourism and Hospitality etc. but the manufacturing, agricultural and other service sectors are not growing at an equal pace. In fact they are not showing any signs of real growth in economic activities, employment, and profits. Hence there is "Jobless Growth" prevailing in India at present rather than "Growth with Employment" which is the actual need of the hour.

(c) **Agricultural Growth:** We are proud that till date India is an agricultural country since majority of its population are engaged in agricultural and agro-based activities but the fact is also that India still imports certain items of foodgrains. Even after green revolution of the 1960's India has still not gained self-sufficiency in agricultural production. There is a prolonged stagnant agricultural growth in India. Agriculture as an occupation is slowly becoming unattractive and unprofitable for the farmers and hence the traditional farmers are selling off their agricultural lands and moving towards urban areas in search of some other jobs. This has even forced many farmers to commit suicides. The main reason for this is the governments' indifferent attitude towards the agricultural sector in India and vested interest towards other quick money making sectors where there is ample scope of easy/ black money.

(d) **Regional Imbalances:** There are growing regional imbalances. There are a few centres of prosperity amidst vast regions of poverty within the same nation. Hence there resides Bharat (Rural India) along with India (Urban India) in the same country.

(e) **Governance:** There are missing links of good governance between the fiscal, administrative, legal and judicial systems in the country resulting in much delays, duplication of the works, red tapism, bureaucracy, corruption and other difficulties.

(f) **Social Sector:** There is a declining trend in the effectiveness of the social sector expenditure. The quality of public transport services, government medical and health care services are very poor compared to the amount of expenditure incurred on such social sectors.

(g) **Capacity Building:** For the development of any nation capacity building has to be accorded prime attention. In India there is inadequate capacity building. Education, Vocational and Technical Education, Human Resource Development (HRD) are just announced as mere policy statements and governments agenda but they are never given any significance.

(h) **Energy and Infrastructure Bottlenecks:** In India there are frequent problems of low voltage, load shedding, no electricity, no roads, lack of storage and warehousing facilities, inadequate transportation systems, inadequate tele-communication systems in certain villages and hamlets even after 63 years of India's independence. There are energy and infrastructural constraints. How can development take place without adequate energy and proper infrastructural facilities?

Conclusion:

Despite the technological revolutions of the 20 th Century and the march towards Liberalisation, Privatisation and Globalisation (LPG), there is rising inequalities and today more than 1 billion people worldwide, lives on less than one dollar per day - a standard of living Western Europe and the United States attained 200 years ago. The "Trickle-Down" effect has really failed in India which has resulted in this rising inequalities. Learning from the India growth story so far; India's post-reforms development experience has been lacking in "inclusive dimensions". In order to fasten the growth phase market friendly actions by the state in four areas will speed rather than hinder development: investing in people, fostering a competitive climate for enterprise, promoting integration with a global economy and maintaining the macro-economic foundation. *In the present era of* liberalisation and globalisation the growth depends on entering the global economy in and not in keeping out of it. In future, only those corporations would be able to survive which would be able to compete on the basis of efficiency and not size. The best option for a company would be follow the strategy of "Think Global, Act Local."

It is to be understood that only those policies which would result in local benefits would be welcome by the emerging economies. In the last to conclude quoting the words of Dr. Manmohan Singh (Prime Minister of India), "For development to become a national obsession, the tyranny of bureaucracy and stranglehold of corruption has to end…. How long will we remain content celebrating our potential even while restraining ourselves from realising it."

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