

# Globalization and few indicators of Indian Economy

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**Abstract:** Globalization was adopted by India during 1990-91 when economy was in major crisis. Fiscal deficit was high, NRI's were not interested in investing and foreign exchange reserves of country were less than sufficient for two weeks import requirements. To come over this situation government focused at economic reforms this includes liberalization, privatization and globalization, popularly known as LPG model. So, Indian economy became more open and market oriented and lowered the barriers to competition and gave a push to globalization. Globalization has come with both benefits and losses. But it is the need of hour so we should deal with it carefully.

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## Introduction

Globalization has different meanings depending on in which context it is being used and by whom. But it always describes the ways by which countries and people of world come together. It may be economic, political or cultural. Here we are interested in economic globalization. It means how countries are coming together to form one big global economy making it easier to buy and sell across countries. It is a process deepening economic integration, openness and interdependence among the countries. It happens through three channels (i) trade in goods and services (ii) movement of capital and flow of finance. Development of communication, transport means internationalization of financial markets and unprecedented mobility of goods, capital, data and manpower has made the process of globalization to take place in a speedy way.

## History of Globalization

The concept of globalization itself was introduced by Adam Smith, the father of modern economics in 1776 through the book titled "Wealth of Nations". In earlier days British, Chinese, Indians and Mughals were involved in global business. They used to trade in different things with each other. But at that time things were replaced with one thing for other or we can say that barter system was there. But 20<sup>th</sup> century everything changed when France introduced the system of protectionism. Then every country started to create national boundaries. With this the globalization get destroyed which was dominant there in the past. But again in late 20<sup>th</sup> century globalizations wind began to blow.

## Globalization and India

Period after 1980-81 was marked by severe BOP difficulties. Trade deficit was also high. Problems were compounded by Gulf war in 1990-91. The problem further accentuated by India's Reliance on external borrowings and non-resident deposit. But with the downgrading of India's credit rating there was a substantial withdrawal from these deposits. Foreign exchange reserves dwindled and were less than sufficient for two weeks of import requirement. Default on debt servicing appeared imminent which can be avoided if credit was made available by IMF or the World Bank. These institutions were ready to help but on their own conditions of stabilization and structural adjustment programs adoption. India adopted this and got globalized, as globalization was a part of structural adjustment program. However only globalization in itself could not help the economy so Indian economy also adopted privatization and liberalization. The new economic reform, popularly known as liberalization, privatization and globalization (LPG model) were adopted to make the economy grow.

### Steps taken toward globalization:

Following LPG model India has taken the major steps in 1990's as below:

1. Devaluation
2. Disinvestment
3. Allowing FDI
4. Dismantling Industrial Licensing Regime
5. Abolition of MRTP act
6. Reduction of custom tariff

7. Removal of quantitative restrictions
8. Opening industries reserved for public sector to private participation

#### **Globalization's effect on few indicators of Indian economy:**

Globalization has connected the whole world and created new opportunities for each and every country. India has also got affected through process of globalization. Indian economy's growth is the result of that which will be more clear by looking at these indicators.

- **Structure of Economy:** Due to globalization the direction of GDP has changed continuously. Earlier agriculture contributed a lot to GDP but now the trend has change and service sector has grown over time. The share of agriculture to GDP has declined continuously. But on the other side agriculture has maximum share in providing employment to people till now.

#### **Structure of the economy (%)**

| % of GDP                    | 1999-2000 | 2012-13 | 2013-14 |
|-----------------------------|-----------|---------|---------|
| Agri. and allied activities | 23.2      | 13.9    | 13.9    |
| Industry                    | 26.8      | 27.3    | 26.1    |
| Service                     | 50        | 58.8    | 59.9    |

Source: CSO

- **Growth rate of GDP:** Since 1990 growth in GDP has been remarkable. But nowadays after achieving good growth of over 9% for three successive years in 2005-06 and 2007-08 and recovering swiftly from global crisis of 2008-09, Indian economy has been going through challenging times that culminated in lower than 5% growth of GDP at factor cost at constant prices for two consecutive years i.e. 2012-13 and 2013-14. This is due to uncertainty in global outlook caused by the crisis in Euro area and general slowdown in global economy compounded by domestic structural constraints and inflationary pressure. Average growth in emerging markets and developing economies including China declined but the slowdown in Indian economy is relatively deeper. The particular worrisome is slowdown in manufacturing .2% in 2012-13 and 2013-14.

#### **GDP growth rate (%)**

| Year                | 1990-91 | 2000-01 | 2005-06 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 (P) |
|---------------------|---------|---------|---------|---------|---------|---------|---------|-------------|
| GDP growth rate (%) | 5.29    | 4.15    | 9.48    | 8.59    | 8.91    | 6.69    | 4.47    | 4.74        |

Source: CSO

P: Provisional

- **Growth of foreign exchange reserves:** Foreign exchange reserves have grown significantly since 1990's. The reserves which stood at US \$ 5.8 billion in 1990-91 rose to US \$ 279.1 billion in 2009-10 and US \$ 304.2 billion in 2013-14 further. Although FCA is maintained in major currencies like US dollar, Euro, Pound sterling, Japanese Yen etc., the foreign reserves are expressed in US dollars only. So, the movements of US dollar against other currencies in which FCA are held also effect the level of reserves of corresponding countries.

#### **Growth of foreign exchange reserves (US \$ million)**

| End of Fiscal          | 1990-91 | 2000-01 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|------------------------|---------|---------|---------|---------|---------|---------|---------|
| Gold                   | 3496    | 2725    | 17986   | 22972   | 2703    | 25692   | 21567   |
| RTP                    | -       | -       | 1380    | 2947    | 2836    | 2301    | 1834    |
| SDR                    | 102     | 2       | 5006    | 4569    | 4469    | 4328    | 4464    |
| Foreign currency asset | 2236    | 39554   | 254685  | 274330  | 260069  | 259726  | 276359  |
| Total                  | 5834    | 42281   | 279057  | 304818  | 294397  | 292047  | 304224  |

Source: RBI

- **Growth of FDI:** FDI add a great deal to India's economy and its growth. The continuous flow of FDI in different sectors shows faith of overseas investors in Indian economy. That is why FDI is growing overtime and has reached US \$ 36.4 billion in 2013-14 from US \$ 4.02 billion in this FDI service sector is attracting the most of it, followed by telecommunication.

**Growth of FDI (US \$ million)**

| Financial year | Equity   |   | Re- invested earnings + | Other capital+ | Total FDI Flows |
|----------------|--|---|-------------------------|----------------|-----------------|
|                | FIPB Route/<br>RBI's Automatic Route/<br>Acquisition Route | Equity capital of unincorporated bodies # |                         |                |                 |
| 2000-01        | 2339   | 61  | 1350                    | 279            | 4029            |
| 2009-10(P)(+)  | 25606  | 1540                                      | 8668                    | 1931           | 37745           |
| 2010-11(P)(+)  | 21376  | 874                                       | 11939                   | 658            | 34847           |
| 2011-12(P)     | 34833  | 1022                                      | 8206                    | 2495           | 46556           |
| 2012-13(P)     | 21825  | 1059                                      | 9880                    | 1534           | 34298           |
| 2013-14(P)     | 24299  | 984                                       | 9047                    | 2066           | 36394           |

Source: RBI

'#' Figures for equity capital of unincorporated bodies for 2010-11 are estimates. (P) All figures are provisional  
 "+" Data in respect of 'Re-invested earnings' & 'Other capital for the years 2009-10,2010-11,2012-13,2013-14 and 2014-15 are estimated as average of previous two years.

- **Growth of foreign trade (US \$ million):** India's trade with world has grown tremendously after adopting economic reforms in 90's. Exports & imports both have been seen in rising trend where imports were quite higher than exports. So, the trade deficit has also grown over years. But in 2013-14 with sharp fall in import and moderate export growth India's trade deficit declined to US \$ 137.5 billion from US \$ 190.3 billion during 2012-13. This is due to fall in imports of gold and capital goods non-POL deficit fall sharply while there was not much change in POL deficit.

**Growth of foreign trade (US \$ million)**

| Year                     | Export | Import | Trade Balance |
|--------------------------|--------|--------|---------------|
| 1990-91                  | 18143  | 24074  | -5932         |
| 2000-01                  | 44076  | 49975  | -5899         |
| 2009-10                  | 178751 | 288373 | -109621       |
| 2010-11                  | 251136 | 369769 | -118633       |
| 2011-12                  | 305964 | 489319 | -183356       |
| 2012-13                  | 300401 | 490737 | -190336       |
| 2013-14 (P) <sup>a</sup> | 312610 | 450068 | -137458       |

Source DGCI & S, Kolkata

P: Provisional

Growth rate on provisional over revised basis and based on Department of Commerce methodology.

**Conclusion**

Indian economy is growing over time and the focus of world has also shifted from USA and rich countries of Europe to Asian giants, India & China. If we want to grow further we have to be very careful at each and every step. So, process of globalization which has both the side's dark and bright need to be tackled so that we can enjoy the bright side and avoid the dark.

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