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A REVIEW

Experiences of globalization in Indian economy

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ABSTRACT

Inspite of adopting the policy of mixed economic system based on socialistic pattern of society, the economy could not feel comfortable, particularly after 3rd or 4th Five year plans (1951-74), for the welfare of common men. Desired objectives in different sectors could not be achieved. This all necessitated the policy planners to resort to some measures for the overall betterment of the people as well of the economy, which took shape in the form of 'economic reforms' of 1991. Globalization is the outcome of such reform measures. Present observation relates to the experiences of such 'economic reforms' after 1991 in the economy. However, this is restricted to foreign trade only in terms of the scope of the present analysis. It was found that India could gain well in the domestic market as well as in the foreign markets in post-globalization era. Forces of globalization are required to be used in accordance with the prevailing environment of the domestic economy.

***Key words* :** Globalization, Indian economy

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Process of globalization seems to be in view with the policy reforms – package of 24th July 1991 in India stressing on the needs of privatization, modernization and liberalization. All the four terms belong the same 'family' of economic-reforms.

In the present context, globalization means opening up the economy to foreign direct investment by giving the facilities to foreign companies to invest in different fields of economic activities in the country, removing the constraints and obstacles to the entry of Multinational Corporations in India.

Impact and effects of globalization may be attempted by including the economic, social, political and cultural considerations in the context. Economic factors may well include the domestic as well the external factors. Probable aspects may include the estimates of foreign trade across exports and imports according to broad principal-commodities groups, balance of payments across current and capital accounts and other monetary movements, direction of foreign trade across broad groups of countries, foreign direct investment, portfolio investment, foreign institutional investors' investment, foreign assistance, inflows and outflows of foreign capital, non-resident Indians' deposits across different foreign currency accounts etc. for the choiced reference term.

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Based on random choice, the reference term is taken as from 1990-91 through 2003-04. This is just for the reason that it covers a sufficient period during post-economic-reform-era for the Indian economy.

Objective:

In terms of the scope of present analysis, this observation on globalization efforts in India relates to examine the experiences of globalization process to strengthen the economy through foreign trade estimates across exports and imports, and, thus considering the trade balance estimates for the choiced reference tern in post globalization-era in the economy.

Hypothesis:

Basic and probable hypothesis in the context of globalization experiences in the economy may include whether globalization would strengthen the Indian economy or not; whether globalization would help to solve the problem of unemployment and unequals existing in the economy; whether globalization would bring in price stability, etc.; whether globalization would help the economy to improve the trade balance and foreign exchange reserves.

Inspite of a variety of considerations, the prime objective would always be to examine and to analyse the impact, effects and experiences of globalization efforts and process on wide ranging economic activities with a view of promoting better mutual understanding between the nations.

Scattered view of globalization:

Globalization favours the acceptance of the new strategy of liberalization and globalization on the argument that India would be able to access to foreign markets more strongly with positive outcomes. This fact underlines the ground reality that foreigners would be able to penetrate the Indian markets more conclusively than Indians would be to access to the foreign markets.

With the inception of the process of liberalization and privatization since the close of eighties, countries began to open up their economies and the flow of information accelerated as a consequent of development in the field of electronics, etc.. The area of international economies was bound to grow to new heights and parameters. Henceforth, need began to be felt for researches in the field of business policy, trade activities, functional management of business operation, economic value added and regulatory framework for Government on regional, national and international bases. These developments have added new dimensions to major industrial and non-industrial nations to move towards increasing integration of trade along with money, capital and foreign exchange markets.

Competitive activity is increasing worldwide. New players like Singapore, Japan, Taiwan, Korea, Malaysia, United States of America etc. have entered into the different fields of production and trade. India too has the very ambition to become world player in such fields with global business activities. Thus, this kind of feeling encourages the process of globalization in our country too.

Multi-national Corporations (MNCs) behave as the ‘vehicles’ of globalization as they account for a large part of foreign direct investment and of trade in goods and services. The growing economic interdependence among nations can easily be viewed from the world trends in trade and investment.

Globalization of trade is occurring quite fast (Amin, 2001). Goods and services are going across international boundaries in large volumes. Such movements are characterized by geographical expansions, multinational operations bringing about internationalization of economic activities of an unprecedented tune. Corporations are expanding their business, increasing exports and gaining from imports and entering into a variety of trade agreements by various names like licensing, franchising, joint ventures and setting up of subsidiaries. Financial flows are gaining momentum day over day.

The principal aim of globalization is to expand trade in goods and services (Acharya, 2003). The World Commission in this regard says that ‘this trade expansion did not occur uniformly across all countries, with the industrialized countries and a group of 12 developing countries accounting for the lion’s share. In contrast to it, the majority of the developing countries did not experience significant trade expansion. Indeed, most of the Least Development Countries (LDCs), a group that includes most of the countries in –sub-Saharan Africa, experienced a proportional decline in their share of world markets, despite the fact that these countries had implemented trade liberalization measures’.

It is observed that India’s merchandise exports increased during 1990-2002 at the rate of 8.8 per cent per annum (from $ 17.97 billion to $ 49.25 billion), while those of China increased at faster rate of 14.8 per cent on similar specifications and those of Mexico at the rate of 12.2 per cent on similar bases. However, compared to the world average annual exports of 5.4 per cent during the similar period, India seems to be benefited from the process of globalization in expanding its export growth. But, India’s share in world merchandise exports improved only marginally from 0.52 per cent in 1990 to 0.76 per cent in 2002.

It is further observed that service sector exports of India are relatively much better. These register an increase from $ 4.6 billion in 1990 to $ 24.50 billion in 2002, showing an annual average growth rate of 15 per cent during this period. However, China’s performance looks slightly better at 17.4 per cent. Much of this increase was due to software exports as a consequence of outsourcing by developed countries, especially United States of America and to some extent the European Union countries. The share of software exports, which was only 42.7 per cent in 1990 in total service exports of India, rose to 75.9 per cent in 2002. This achievement is obviously remarkable. India seems to be benefited substantially in the service sector exports as compared to with the world average growth of commercial services of the order of 6 per cent.

It is also observed that exports rose from 7.3 per cent of GDP (Gross Domestic Product) in 1991-92 to 9.1 per cent of GDP in 1995-96. Thereafter, a gradual decline was observed to the tune of 8.4 per cent of GDP. But, in case of imports, these increased from 8.3 per cent of GDP in 1991-92 to 12.3 per cent in 1995-96. Interestingly, when exports fell in 1996-97 and 1997-98, imports continued their rising trend. During 2000-01, when exports rose to the extent of 9.8 per cent of GDP, imports increased upto 13.0 per cent of GDP. Consequently, the trade deficit in India during 1996-97 and 2000-01 ranged between 3.1 to 4.0 per cent of GDP. The situation improved marginally during 2001-02 and 2002-03 and the trade deficit, as a result, came down to 2.6 per cent and 2.5 per cent of GDP, respectively.

Keeping such considerations in view to examine the experiences of globalization in Indian economy across domestic and external sectors, such an exercise may well include the macro-aggregates like employment-status, poverty-index, levels of living, quality of life both in urban and rural areas, agricultural output, industrial growth and development, infrastructural expansion, foreign trade, foreign direct investment and foreign exchange reserves besides many other factors in this context.

Review :

The review of related literature suggests that the entire span since independence may suitably be classified into five-phases of pursuance of different policies and programmes of economic development in the country. In chronological order, Phase I covers a period between 1947-65 as the period of rising dominance of public sector in the economy. This phase may also be characterized as the phase of socialistic pattern of society. Phase II relates to 1965-80 as the phase of licensing system and control and of the policy of import substitution. Phase III comprises between 1980-90 characterised by the opening up the economy to external sector in terms of trade and delicensing-policy. Phase IV between 1990-2000 rings the bell of LPG – liberalization, privatization and globalization (and modernization also). Phase V as the last phase in present reference, is from 2000 and onwards makes the economy widely-open, more competitive and 'generous' and started behaving like 'global players' in the market as a whole.

Analysis:

Present observation attempts to examine the impact and experience of the process of globalization on the external sector of the economy. This task was undertaken by resting the choice on the estimates of foreign trade in different dimensions for Indian economy for a referred period from 1990-91 through 2003-2004.

Globalization in fact has led to greater integration of different economies with growing competition across national boundaries, wider expansion and transfer of technologies, larger size of markets with increasing opportunities for investments and smoother mobility of capital between the countries.

Now, an attempt is made to analyse the effect of globalization and of economic reforms policies on foreign trade of India. This is done by considering the estimates of exports and imports and thus of trade balances in rupees crores at current market prices for Indian economy from 1990-91 through 2003-04 as already explained earlier. Estimates of percentage change year over year (YoY) of exports and imports are also considered in the present analysis.

Table 1 presents the estimates of foreign trade for India in absolute terms in Rs. crores from 1990-91 through 2003-2004. These estimates are across exports, imports and the trade balance accordingly for the considered reference term.

Table 1 : India's foreign trade (Rs. Crore)

Years	Exports	Imports	Trade balance *
(1)	(2)	(3)	(4)
1990-91	32557.63	43192.86	-10635.23
1991-92	44041.81	47850.84	-3809.03
1992-93	53688.25	63374.52	-9686.27
1993-94	69751.39	73101.01	-3349.62
1994-95	82674.11	89970.66	-7296.55
1995-96	106353.34	122678.14	-16324.80
1996-97	118817.08	138919.68	-20102.60
1997-98	130100.64	154176.30	-24075.66
1998-99	139753.14	178331.85	-38578.71
1999-2000	159561.39	215236.47	-55675.08
2000-01	203571.01	230872.76	-27301.75
2001-02	209017.97	245199.72	-36181.75
2002-03	255137.28	297205.87	-42068.59
2003-04	291581.93	353975.61	-62393.68

Source : Directorate general of commercial intelligence and statistics (Economic survey), GOI
*Trade balance = Exports - Imports

Table 1 presents the aggregate estimates of foreign trade for Indian economy.

A look at the estimates of the table reveals the fact that aggregative exports of India shows an ever rising trend between 1990-91 and 2003-04 (Col. 2). Similar phenomenon is observed for aggregative imports (Col. 3). A further look at these estimates shows the fact that aggregative imports are invariably exceeding the aggregative exports during the entire reference term, and thus the trade balance estimates are reported as with negative sign from 1990-91 through 2003-04 (Col. 4).

This implies that exports are increasing but with slow speed as compared to with the imports, which further implies that import-liability of Indian economy has sizeably increased during the post-globalization period. This means that globalization, if, has augmented the size of exports in absolute terms, then, import-burden is also accounted in the economy leading to the 'unfavourable' or negative trade-balance (exports-imports).

Adjoining time-series (Fig. 1) relating to the aggregative exports and imports for Indian economy exhibit the phenomenon of exceeding imports than exports from 1990-91 through 2003-04, as already explained above. A close watch on the Fig. 1 reveals the fact that such rise in both exports and imports were gradual upto 1996-97, and, thereafter, this rise became steep and further steeper after 2000-2001.

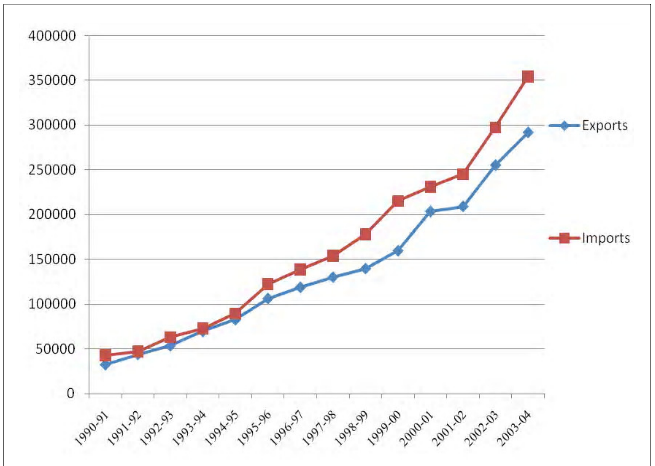

Fig. 1 : India's foreign trade (Rs. crores) (X-M)

This shows that the impact of globalization seems pronounced after 1996-97 and more pronounced after 2000-2001 in the economy.

Thus, it can be concluded that on one hand, the exports are getting the rising share in world market but Indian market has greater absorption capacity for imports. Greater import-demand may partly be attributed to free competition and better consumer goods (produced using foreign technology).

Table 2 has the estimates of exports and imports for India from 1990-91 through 2003-04 in terms of percentage change year over year (YoY). A look at the estimates of the table reveals the fact that both exports and imports registered a rise YoY for the entire reference term (Cols. 2 and 3). However, this rise is quite fluctuating YoY and no specific cause may rightly be assigned rather this seems to be phenomenal and depending upon the then prevailing circumstances in the economy.

Maximum rise in exports was estimated as 35.27 per cent in the year 1991-92 over the year 1990-91, while the lowest rise was 02.67 per cent in the year 2001-02 over the year 2000-01 (Col. 2). Similarly, maximum rise in imports was estimated as 36.35 per cent in the year 1995-96 over the year 1994-95, while the lowest rise was estimated as 06.20per cent in the year 2001-02 over the year 2000-01 (Col. 3) alike exports.

There seems a general falling trend in exports in percentage change terms from 1990-91 through 2003-04 from 35.27 per cent (1991-92) to 14.28 per cent (2003-04) (Col. 2). Just contrary to it, a general rising trend in imports in percentage change terms from 1990-91 through 2003-04 was observable from 10.78 per cent (1991-92) to 19.10 per cent (2003-04) (Col. 3).

The fluctuating tendency of rise in exports and imports both in percentage terms does not seem to present some specific conclusion in this context, but, it seems worth noting that both exports and imports were rising in percentage change terms positively YoY for the entire reference term.

Fig. 2 relating to India's foreign trade expressed as percentage change over the previous year indicating the similar fact of fluctuating tendency in exports and imports YoY in

Table 2 : India's foreign trade percentage (%) change*

Years	Exports	Imports
(1)	(2)	(3)
1990-91	~	~
1991-92	35.27	10.78
1992-93	21.90	32.44
1993-94	29.92	15.34
1994-95	18.54	23.07
1995-96	28.64	36.35
1996-97	11.71	13.23
1997-98	9.49	10.98
1998-99	7.41	15.66
1999-2000	14.17	20.69
2000-01	27.58	7.26
2001-02	2.67	6.20
2002-03	22.06	21.20
2003-04	14.28	19.10

Source : Directorate general of commercial intelligence and statistics (Economic survey), GOI

$$\text{*Percentage change} = \frac{\text{Difference } (Y_2\text{-}Y_1)}{\text{Original Figure } (Y_1)} \times 100$$

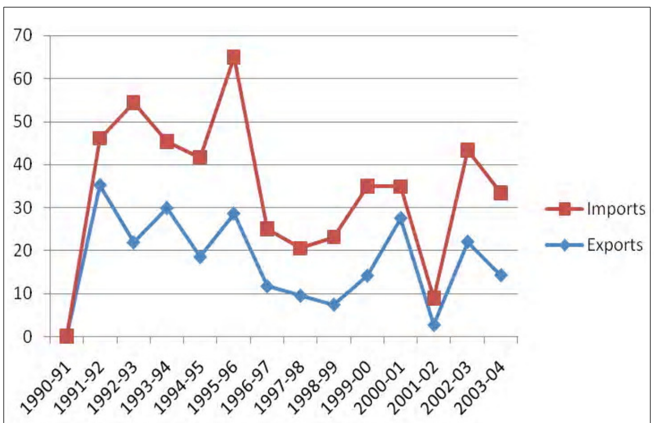

Fig. 2 : India's foreign trade percentage (%) change

Indian economy as explained above. However, the fluctuations were more pronounced in the case of imports compared to exports during the corresponding years.

Thus, it looks that the process of globalization has influenced both the exports and imports of India but imports are influenced more 'favourably' than the exports. This shows of greater demand for import-goods in the domestic market either due to low cost of production or due to better technology of production or due to the operation of large-scale economies for import-goods (either consumer or capital or both goods).

Concludingly, it can be stated that post-globalization could not benefit much to augment the exports of India in relative terms along with rising burden of trade-balance on the national economy which would obviously affect adversely the foreign exchange reserves and the overall balance of payments position in India.

Table 3 presents the estimates of exports and imports across oil-products and non-oil products for Indian economy from 1990-91 through 2003-04 in terms of percentage-share in total. A look at the estimates reveals the fact that oil products exports constituted in general about 5 per cent of total exports while non-oil products exports were reported as 95 per cent in general during the entire reference term from 1990-91 through 2003-04; whereas, the oil products imports were worked out quite high, that is, around 30 per cent and the remaining 70 per cent were the non-oil products in total imports (Cols. 2,3,5 and 6). A further look at the same estimates shows that in general the oil-products exports indicated a general rise from 2.88 per cent to 5.58 per cent from 1990-91 to 2003-04, respectively. The maximum oil-products exports are estimated as 5.58 per cent in 2003-04 while the minimum oil-products exports were seen as 0.11 per cent only in the year 1999-2000 (Col. 2). Likewise, non-oil products exports seemed to decline from 97.12 per cent in 1990-91 to 94.42 per cent in general in 2003-04.

The maximum non-oil products exports were reported as 99.89 per cent in the year 1999-2000 while the minimum were 94.42 per cent in the year 2003-04 (Col. 3). A marginal rise is visible in general in oil-products imports from 25.04 per cent in 1990-91 to 26.33 per cent in 2003-04. The maximum oil-products imports were worked out around 30.96 per cent in 2001-2001 while the minimum oil products imports were considered as 15.10 per cent in the year 1998-99 (Col. 5). Contrary to it, a marginal fall was visible in general in non-oil products imports from 74.96 per cent in 1990-91 to 73.67 per cent in 2003-04. The maximum non-oil products imports were estimated as 84.90 per cent in the year 1998-99 while the minimum non-oil products imports were taken as 69.04 per cent in the year 2000-01 (Col. 6). Thus, it looks clear that non-oil products exports and imports were always exceeding the oil trade. Further, the oil exports were too little as compared with oil imports.

Below given deliberation shows that share of oil exports in total exports was quite low; while, the share of oil imports seems quite sizeable in total imports. This shows of our dependence on oil-products to some larger extent. A slight decline in import-demand seems to give some relief but it is accompanied at the same time with marginal fall in export-

Table 3 : India's foreign trade – Rupees (Percentage share*) (Rs. Crore)%

Years	Exports			Imports		
	Oil	Non-oil	Total	Oil	Non-oil	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1990-91	2.88	97.12	100.00	25.04	74.96	100.00
1991-92	2.32	97.68	100.00	27.44	72.56	100.00
1992-93	2.57	97.43	100.00	27.05	72.95	100.00
1993-94	1.78	98.22	100.00	24.68	75.32	100.00
1994-95	1.58	98.42	100.00	20.68	79.32	100.00
1995-96	1.43	98.57	100.00	20.53	79.47	100.00
1996-97	1.44	98.56	100.00	25.65	74.35	100.00
1997-98	1.01	98.99	100.00	19.67	80.33	100.00
1998-99	0.27	99.73	100.00	15.10	84.90	100.00
1999-2000	0.11	99.89	100.00	25.40	74.60	100.00
2000-01	4.19	95.81	100.00	30.96	69.04	100.00
2001-02	4.83	95.17	100.00	27.24	72.76	100.00
2002-03	4.88	95.12	100.00	28.73	71.27	100.00
2003-04	5.58	94.42	100.00	26.33	73.67	100.00

Source : Directorate General of Commercial Intelligence and Statistics (Economic Survey), GOI

$$\text{*Percentage share} = \frac{\text{Item – Value}}{\text{Total – Value}} \times 100$$

demand too in general. This implies that post-liberalization and post-globalization periods could not correct the situation of adverse trade balance and that of the balance of payments in Indian economy. The economy does not seem to be benefited by the gains of globalization to the desired objectives of 'new economic policy-reforms'.

Conclusion:

Analysis of the impact and experiences of globalization on external sector in terms of the estimates of foreign trade rolls down to the following broad facts in to consideration :

– Both export and import demands are seen to be influenced by the adoption of the policy of globalization as the part of economic reforms in India since 1991. These demands are observed as appreciating year over year (YoY) in the national economy.

– Import demand is weighed as heavy as compared to the export demand in national context. This show of more 'generous' impact of globalization on imports than on exports.

– Post-globalization era witnesses the period of rising burden of trade-balance in the economy which obviously seems to affect adversely the state of foreign exchange reserves and the overall balance of payments.

– Oil exports of the economy seem to be significantly low as compared to non-oil exports while this is not observed in case of oil imports. Both, oil and non-oil imports seem to scale up regularly in general in the economy. Further, the economy seems to depend largely on oil imports. India is existing in the world market with several gains but not that much 'comfortably' as expected after globalization and other policies of economic reforms.

Prospective view :

It is experienced that India has already drawn important benefits from globalization. However, it could profit even more. Foreign Direct Investment and Foreign Trade still have a lot of potential. Internationally, there is strong interest to invest in export-oriented industries in India. All countries stand to win if they open up in a well-managed way and realize their full potential as participants in the international division of labour. India's future depends crucially on education, research and innovation. It is important to set economic incentives in right perspectives.

Economic globalization is a powerful driver of change within countries and in the relations between them.

The biggest challenge that India faces is the need of reforms to make globalization to work for us, to our culture, to our environment, for our domestic economy connected with world market and to such similar considerations. The best to do for our country is to make full use of the opportunities that globalization presents.

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