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## ***Emerging Trend of Globalization Impact on Indian Financial System: an Analysis***

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### ***Abstract***

*Indian economy had experienced major policy changes in early 1990s. The new economic reform, popularly known as, Liberalization, Privatization and Globalization (LPG model) aimed at making the Indian economy as fastest growing economy and globally competitive. The series of reforms undertaken with respect to industrial sector, trade as well as financial sector aimed at making the economy more efficient.*

*With the onset of reforms to liberalize the Indian economy in July of 1991, a new chapter has dawned for India and her billion plus population. This period of economic transition has had a tremendous impact on the overall economic development of almost all major sectors of the economy, and its effects over the last decade can hardly be overlooked. Besides, it also marks the advent of the real integration of the Indian economy into the global economy.*

*Now that India is in the process of restructuring her economy, with aspirations of elevating herself from her present desolate position in the world, the need to speed up her economic development is even more imperative. And having witnessed the positive role that Foreign Direct Investment (FDI) has played in the rapid economic growth of most of the Southeast Asian countries and most notably China, India has embarked on an ambitious plan to emulate the*

*successes of her neighbours to the east and is trying to sell herself as a safe and profitable destination for FDI.*

**Keywords:** *Liberalization, Privatization, Globalization, restructuring, FDI, Profitable*

## **I. INTRODUCTION**

Indian economy had experienced major policy changes in early 1990s. The new economic reform, popularly known as, Liberalization, Privatization and Globalization (LPG model) aimed at making the Indian economy as fastest growing economy and globally competitive. The series of reforms undertaken with respect to industrial sector, trade as well as financial sector aimed at making the economy more efficient. With the onset of reforms to liberalize the Indian economy in July of 1991, a new chapter has dawned for India and her billion plus population. This period of economic transition has had a tremendous impact on the overall economic development of almost all major sectors of the economy, and its effects over the last decade can hardly be overlooked. Besides, it also marks the advent of the real integration of the Indian economy into the global economy. This era of reforms has also ushered in a remarkable change in the Indian

mindset, as it deviates from the traditional values held since Independence in 1947, such as self-reliance and socialistic policies of economic development, which mainly due to the inward looking restrictive form of governance, resulted in the isolation, overall backwardness and inefficiency of the economy, amongst a host of other problems. This, despite the fact that India has always had the potential to be on the fast track to prosperity.

Now that India is in the process of restructuring her economy, with aspirations of elevating herself from her present desolate position in the world, the need to speed up her economic development is even more imperative. And having witnessed the positive role that Foreign Direct Investment (FDI) has played in the rapid economic growth of most of the Southeast Asian countries and most notably China, India has embarked on an ambitious plan to emulate the successes of her neighbours to the east

and is trying to sell herself as a safe and profitable destination for FDI.

We have seen landmark shift in Indian Economy since the adoption of new economic policy in 1991. This had far reaching impacts on all spheres of life in India. There can be no concrete conclusions about their impact on Indian people. This turns out to be more of an ideological debate like capitalism vs Socialism. But there is no doubt in the fact that those reforms were unavoidable and very compelling. There was in fact, similar wave all across the globe after disintegration of USSR and end of the Cold War. Many Post-colonial democratic regimes, which were earlier sheltered by USSR, lost their umbrella. They had no option, but to fall in line to new unipolar world order dictated by USA. Even China in late 1980's adopted 'Open Door Policy' through which it liberalized its economy by shedding communist mentality completely. South East Asian economies also reformed their economy and started engaging more with global economy. These along with China, pursued export led growth whereas Indian economy still relies almost wholly on domestic consumption.

Now we have ultra-modern and ultra-primitive society coexisting and conflicting with each other. Undoubtedly strongest revolution of new century has been one of Information Technology, which started in last years of past century. This revolution was different because it made globalization even more obvious and stark. It made possible transfer of real time human labour across nations, without transfer humans themselves. Further, it erased all boundaries which hinder free flow of information. This has benefited sharing, nurturing and development of knowledge in societies which earlier had access only to substandard or non-updated information. As always package is coupled with some grim realities too.

Governments all across the world has lost their capacity to regulate and ward of against malicious, false, sensitive information and content. Rise of Islamic State demonstrates that, IT revolution has helped development of global Terrorist links more than anything. Moreover, explicit content is freely available on web.

#### **OBJECTIVES OF THE STUDY**

- To understand the concept of globalization.

- To highlight the globalization impact on service, industrial sectors.
- To know the globalization impact on agricultural sector.

**GDP GROWTH RATE** – India’s annual average growth rate from 1990 – 2010 has been 66% which is almost double than pre reforms era. GDP growth rate surpassed 5% mark in early 1980’s. This made impact of 1990’s reforms on growth unclear. Some believe that 1980’s reforms were precursor to LPG reforms. Other things apart, it is clear that 1980 reforms led to crash of economy in 1991, which was remedied by LPG reforms which were quite more comprehensive. It was IMF loan which gave government to adjust its economy.

**INDUSTRIAL GROWTH RATE** – Barring few years industrial growth rate has been not much impressive. Share of Industry still remains stagnantly low at 25%. Worst is that India has transitioned to be a service led economy, directly from an agrarian one. One expiation of this is end of policy of imports substitution which derived industrial growth upto 1990. Foreign companies got free access to Indian markets and made domestic

products uncompetitive. They obviously had better access to technology and larger economies of scale.

India’s position also lagged on account of Research and innovation. Import substitution required certain degree of investment and efforts in domestic production. It was carried out even when imports were cheaper. This resulted in good and better capacity building upto that time. This was coupled with constant technology denial by west, which further pushed government to spend on R&D. Technology Denial ended with liberalization and globalization. Till that time Indian Industry was better and modern than that of China. But in two decades China has surpassed India by huge margin in case of both Industry and innovation.

#### **IMPACT ON SSIs**

This impact shall be studied right from the beginning of colonization in 18th century. Colonization can be considered as 1st wave of globalization. In pre colonization era, India’s textiles and handicraft was renowned worldwide and was backbone of Indian economy. With coming of industrial revolution along with foreign rule in India, Indian economy suffered a major setback

and much of its indigenous small scale cottage Industry was destroyed.

Small scale industry however exists and still remains backbone of Indian Economy. It contributes to major portion of exports and private sector employment. Results are mixed, many erstwhile Small scale industries got bigger and better. But overall value addition, product innovation and technology adoption remains dismal and they exist only on back of government support. Their products are contested by cheaper imports from China. Policies of government toward SSI were covered in previous article access here and here

### **IMPACT ON AGRICULTURE**

As already said, share of agriculture in domestic economy has declined to about 15%. However, people dependent upon agriculture are still around 55%. Cropping patterns has undergone a huge change, but impact of liberalization can't be properly assessed. We saw under series relating to agriculture that there are still all pervasive government controls and interventions starting from production to distribution (here SPS and here – WTO).

Global agricultural economy is highly distorted. This is mainly because imbalance

in economic and political power in hands of farmers of developed and developing countries. In developed countries, commercial and capitalistic agriculture is in place which is owned by influential Agri corporations. Farming in developing world is subsistence and supports large number of poor people. With globalization there has been high fluctuation in commodity prices which put them in massive risk. Also there is global Food vs. Fuel confusion going on. Sugar and corn are used to manufacture ethanol which is used as fuel. In USA Corn is produced mainly for this purpose, as sugar cane is in Brazil. Now there are apprehensions that what if converting food into fuel is more remunerative for producers? More than 1 billion people still live in hunger, much more are just hand to mouth. It is futile to expect that free market will take care of these people, who don't have any purchasing power. Clearly, Agriculture is biggest market failure, but is rarely discussed for being so in WTO.

### **IMPACT ON SERVICE SECTORS**

In this case globalization has been boon for developing countries and bane for developed ones. Due to historic economic disparity between two groups, human resources have been much cheaper in developing

economies. This was further facilitated by IT revolution and this all culminated in exodus of numerous jobs from developed countries to developing countries. Here US have to jealously guard its jobs as we guard our agriculture.

### **IMPACT ON I.T INDUSTRIES**

Software, BPO, KPO, LPO industry boom in India has helped India to absorb a big chunk of demographic dividend, which otherwise could have wasted. Best part is that export of services result in export of high value. There is almost no material exported which consume some natural resource. Only thing exported is labor of Professionals, which doesn't deplete, instead grows with time. Now India is better placed to become a truly Knowledge Economy.

### **BANKING**

Further, in banking too India has been a gainer. Since reforms, there have been three rounds of License Grants for private banks. Private Banks such as ICICI, HDFC, Yes Bank and also foreign banks, raised standards of Indian Banking Industry. Now there is cut through competition in the banking industry, and public sector banks are more responsive to customers.

Here too IT is on path of bringing banking revolution. New government schemes like PradhanMantri Jan dhanYojana aims to achieve their targets by using Adhaar Card. Having said this, Public Sector Banks still remain major lender in the country.

### **IMPACT ON STOCK MARKET**

Another major development is one of Stock Markets. Stock Markets are platforms on which Corporate Securities can be traded real time. It provides mechanisms for constant price discovery, options for investors to exit from or enter into investment any time. These are back bone of free markets these days and there is robust trade going all over the world on stock exchanges. Their Importance can be estimated from the fact that, behavior of stock markets of a country is strongest indicator of health and future prospects of an economy. These markets has thrown open wide array of associated services such as Investment Banking, Asset Management, Underwriting services, Hedging advice etc. Similarly there are commodities market which provides avenues for investment and sale of various eligible commodities.

## **IMPACT ON TELECOM SECTORS**

Conventionally, Telecom sector was a government owned monopoly and consequently service was quite substandard. After reforms, private telecom sector reached pinnacle of success. Entry of modern Direct to Home services saw improvements in quality of Television services on one hand and loss of livelihood for numerous local cable operators.

## **IMPACT ON EDUCATION AND HEALTH SECTORS**

It should be noted that food (Agriculture), Health and education (and to lesser extent banking) are among basic necessities, which every human being deserves and can't do without. Unfortunately, in developing countries there is market failure in all these sectors and majority of people can't afford beyond a certain limit (or can't afford at all).

Concept of free markets, globalization, liberalization etc. fails here miserably. Free markets provide goods and services to people who can afford paying for them, not to those who deserve and need these. Now if we consider these sectors from angle of our inclination towards free markets, certainly there has been lot of progress. There has been world class education available in India

and Deregulation has resulted in Mushrooming of private engineering and Medical Colleges. These new colleges accommodate only a miniscule proportion of aspirants at very high costs. Recently, an Independent organization 'Transparency International' came out with report claiming that India's medical system is most corrupt in the world. This was no surprise, we all know from where it starts. High fees of education forces many aspirants to take educational loans from banks. After qualifying job market is unable to absorb majority

Reality is that after deregulation and liberalization, government along with other sectors, pulled its hand from social sectors too. On Social front India's performance is deplored all over the world and it is probably behind all important developing economies. This lacuna has been recognized and government has taken the charge. In case of education almost universal enrolments has been achieved upto primary level and now impetus should be on improving quality, so that student of public schools comes at par with atleast average private ones.

## **IMPACT ON 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 of annual export of the country. In 2000-01 Agricultural products valued at more than US \$ 6million were exported from the country 23% of which was contributed by the marine products alone.

Marine products in recent years have emerged as the single largest contributor to the total agricultural export from 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 fro nearly 5 to 10% of the countries total agricultural exports.

## **ADVANTAGES OF GLOBALIZATION**

- 1) There is an International market for companies and for consumers there is a wider range of products to choose from.

- 2) Increase in flow of investments from developed countries to developing countries, which can be used for economic reconstruction.
- 3) Greater and faster flow of information between countries and greater cultural interaction has helped to overcome cultural barriers.
- 4) Technological development has resulted in reverse brain drain in developing countries.

## **DEMERITS OF GLOBALIZATION (CHALLENGES)**

- 1) The outsourcing of jobs to developing countries has resulted in loss of jobs in developed countries.
- 2) There is a greater threat of spread of communicable diseases.
- 3) There is an underlying threat of multinational corporations with immense power ruling the globe.
- 4) For smaller developing nations at the receiving end, it could indirectly lead to a subtle form of colonization.

## CONCLUSION

India gained highly from the LPG model as its GDP increased to 9.7% in 2013-2014. In respect of market capitalization, India ranks fourth in the world. But even after globalization, condition of agriculture has not improved. The share of agriculture in the GDP is only 17%. The number of landless families has increased and farmers are still committing suicide. But seeing the positive effects of globalization, it can be said that very soon India will overcome these hurdles too and march strongly on its path of development. The lesson of recent experience is that a country must carefully choose a combination of policies that best enables it to take the opportunity - while avoiding the pitfalls. For over a century the United States has been the largest economy in the world but major developments have taken place in the world Economy since then, leading to the shift of focus from the US and the rich countries of Europe to the two Asian giants- India and China. Economics experts and various studies conducted across the globe envisage India and China to rule the world in the 21st century. India, which is now the fourth largest economy in terms of purchasing power parity, may overtake Japan and

become third major economic power within 10 years.

To conclude we can say that the modernization that we see around us in our daily life is a contribution of Globalization. Globalization has both positive and as well as negative impacts on various sectors of Indian Economy. So Globalization has taken us a long way from 1991 which has resultant in the advancement our country.

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