

## Economic globalization in the 21<sup>st</sup> century: A case study of India

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### Abstract

Globalization has integrated the economies of the world, especially the developing countries. With that, there has been considerable progress in economic globalization. Economic globalization, is defined as increased interconnectedness through higher trade volumes and enhanced capital flows. Factors such as better transport and communication facilities, relaxation in government policies, and advancement in technology (digitally and physically) have led to rapid economic globalization. In case of India, Multinational Corporations (MNCs) have contributed a lot towards the globalization process. The MNCs have attracted non-debt creating flows and imported technology for the benefit of the country. The liberalized government foreign trade policies have helped in increasing trade openness. In spite of the progress, numerous challenges in various forms such as lack of strong and efficient institutions, favorable redistributive and regulatory policies, domestic companies unable to compete with foreign MNCs, increase in the volume of foreign portfolio flows and MNCs adopting oligopolistic practices. Suitable policies and corrective measures can help the economy in matters of further progress in globalization.

### 1. Introduction

The term globalization began to be used more commonly in the eighties. The process reflected the following features such as technological advances and international transactions in the form of both trade and financial flows. The process extended beyond the national borders at all levels of human economic activity. Globalization is a phenomenon of incorporation and interaction among different people residing in different parts of the world. It incorporates companies, governments among people, and industries of various countries. In other words, it is a phenomenon which is motivated and fueled by the expansion of global trade, investment, and technological upgradation. The process of globalization has made a deep impact on the various elements including environment, culture, politics, economic growth, prosperity and human well-being in society's residing in the planet.

Globalization has the following characteristics:

Firstly, it involves a transformation of social affairs by connecting them together. In other words, the human activity are extended across areas the frontiers. It is seen that activities in one part of the world have a consequence for the other parts of the world, especially in remote regions. Secondly, there is a transregional interconnectedness and a broadening of networks. There is a growing scale of interconnections interactions and movements across peoples, societies and countries. Further, the speeding up of world-wide interactions and procedures is a result of the heightened growth of transport and communications. The global dissemination of ideas, goods, statistics, wealth and people's faster. Lastly, the influence of distant happenings is exaggerated. Local changes and growth can have big global significances. The frontiers between local and international affairs have widely become distorted. Lastly, Globalization involves the interplay of many factors such as markets, latest technology, skill and tech-knowhow and the Government. These are the most ancient and most unique form of human inventions.

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*Research Goal:* The objective of the Chapter is to examine the extent and magnitude of economic globalization for the Indian Economy since the economic reforms (1991). The main research question, is to study the extent of integration of the Indian Economy with the international market in the form of higher trade and capital movement. Furthermore, the objective is also to look as to how the process of economic globalization have influenced the growth rate of economy, since the opening of the economy in 1991. To study such aspect, some statistics and data on Trade, GDP and capital flows were collected from Reserve Bank of India (RBI) and other sources.

To look into all these matters/aspects, the Chapter is sub-divided into a number of sections. The first section is the Introduction discussing the Overview of Globalization. The second section provides an outline on Globalization in India. The Third section summarizes the literature Review, Methodology and Data Sources. The fourth section discusses the factors contributing towards Economic globalization. The Fifth section discusses the Present FDI status and announcements. The Sixth section describes the new Foreign Trade Policy developments and Announcements. The Seventh section discusses the Challenges to Economic Globalization followed by Conclusion and Remedial & Policy Measures including the Limitations section.

## 2. Globalization in India

Economic globalization is a “historic process mainly as an outcome of human invention and technological advancement. In normal connotation, it is the growing integration of economies throughout the world via movement of goods, services, and capital across the international frontiers”. The term mainly indicates the movement of people in the form of labor and knowledge in the form of technology across the international boundaries and frontiers.

Globalization began with the emergence of capitalism and created an influential wave in the Nineteenth Century. This process continued in the Twentieth Century till emergence of the First World War. The IMF, World Bank (IBRD) and the US Treasury together augmented the globalization process. The form was known as the “Washington Consensus”. Under this term “Washington Consensus”, a number of policy reforms were suggested. Some of them were notably fiscal reforms in the form of Fiscal Discipline; public expenditure priorities directed towards sectors of national importance such as health, education and infrastructural development. The other notable reforms were in the form of Tax reform, higher Trade Liberalization; Increasing FDI inflows; Privatization; and Deregulation respectively.

### 2.1. History of Globalization

The process of Globalization has always been used in economic terms. Globalization is normally labelled as “an increase in economic integration among nations”. Even before numerous nation-states were non-existent, the countries around the world had gone for the globalization process. The concept of globalization was popularized by the Organization of Economic Cooperation and Development (OECD) in the mid-1980s. Hence, the OECD suggested the replacement of GATT by the WTO and was supported by the developed economies and led to the creation of WTO. The official meaning of globalization for the WTO was movement of the economies towards “unrestricted cross border movements of goods and services, capital and the labor force”. India was one of the founding members of the WTO. Henceforth, it was obliged to promote the process of globalization. It started the process of globalization through the “*economic reforms in the year 1991*”. The economic reforms in terms of “Liberalization, Privatization and Globalization (LPG)” was targeted to make the Indian economy achieve a higher growth rate and export competitiveness. The series of economic reforms were primarily taken in selected sectors such as industrial sector, trade sector, and financial sector.

Economic Globalization started in India through the export and import channels associated with International Trade and short term and long term capital flows in connection with Foreign Direct investment and Foreign Institutional Investment respectively. Newer trading activities were brought under the ambit of the new global trading system. Notable examples include trade in services, trade related investment measures, and agricultural produce etc. Quantitative trade barriers removed and trade barriers & export subsidies had been brought down.

The history of economic globalization began with India launching its economic reform program in the year 1991. They were characterized by the following features.

- (i) *Promotion to the Private Sector:* Through de-reservation, de-licensing, reducing MRTP Limit, streamlining environmental laws etc.
- (ii) *Public sector reforms:* To make the public sector more profitable and efficient.
- (iii) *External Sector Reforms:* Consisted of policies like abolishing quantitative restrictions on import, switching to the floating exchange rate, full current account convertibility, reforms in the capital

account, permission to foreign investment (direct as well as indirect), promulgation of a liberal Foreign Exchange Management Act (the FEMA replacing the FERA), etc.

- (iv) *Financial Sector Reforms*: The notable areas of reforms were banking, capital market, insurance, mutual funds, etc.
- (v) *Tax Reforms*: Consisted of policy reforms such as simplifying, broad basing, modernizing, checking evasion of taxes etc.

## 2.2. Economic Globalization

The *Economic globalization* was initiated after the economic reforms, 1991. The economic globalization was mainly through Trade Policy reforms, Foreign Direct Investment reforms and Attracting Foreign Capital.

*Trade Policy Reforms*: The decade after 1991 had been noticeable by considerable trade liberalization. Some liberalization measures were as a result of opinion among government circles. It was felt that to make the exports competitive in the international market, this step was required. Some of the policy reforms were undertaken under the pressure of the international bodies as a part of the stabilization and adjustment programme. Moreover with India joining the WTO (World Trade Organization) in the year 1995 had an obligation and compulsion to cut down all the quantitative restrictions on imports and tariffs. In the process, this led to the opening up of the economy and globalization. The main characteristics of trade policy 1991 are described below:

- (i) In the pre-reform time-period, the trade policy was of a very complex nature. There were different types of importers, import licenses, different methods of importing etc. Furthermore considerable simplification and liberalization in all forms was carried out in the reform period. The new import policy on tariff-lines was declared in March, 1996. Nearly, 6,161 tariff lines was announced free and by March, 2000, the total items went up to 8,066. Thereafter, the Exim policy, 2000-01 was announced and it further removed quantitative restrictions on 714 items. Presently, all quantitative restriction on all the import goods have been abolished. This was in-line with India's obligation to World Trade Organization.
- (ii) There was some form of rationalization of the tariff structure. This was done on the recommendation of the Chelliah Committee. The Committee recommended that the prevailing rates of import duties be lowered by 1998-99. This was done to establish parity in prices between the domestically produced goods and internationally produced goods. Going by the recommendations, the Government of India (GOI) have reduced the duty over the years.
- (iii) Items such as newsprint, rubber and non-ferrous metals were decanalised over the years.
- (iv) *Convertibility of rupee on Current Account*: There was an adjustment of 18-19 percent in the downward direction on the exchange rate of rupee. This was done in July, 1991 followed by partial convertibility of rupee and full convertibility on current account (August 1994). Presently the Indian exchange rate is being pegged to a market related system.
- (v) The 1991 trade reform policy allowed the setting up of trading houses. Furthermore the trading houses have also been given 51 percent of the foreign equity with the objective of boosting exports.
- (vi) Setting up of Special Economic Zones to promote exports was proclaimed and the aim was to promote exports and investment.
- (vii) Market Access Initiative scheme was launched by the GOI for select products for promotion of exports from India through fairs, showrooms, warehouses set upon rental charges.
- (viii) *Foreign Exchange Management Act 1999(FEMA)* replaced the FERA (1973). Lastly, the *Free Trade policy (2004-09)* was introduced to establish Free Trade and Warehousing Zones. The main aim of this policy was to facilitate the import and export of goods and services in any currency and make India a leading global trading hub. Foreign direct investment was permitted upto 100 percent for the development of new zones and infrastructure.

*Foreign Direct Investment Reforms and Attracting Foreign Capital*: Some important measures were announced. They are as follows:

In 1991, a list of high-tech industries was declared and FDI upto 51 percent was granted to these industries. With time, the FDI limit was raised from 51 percent to 74 percent and finally to 100 percent. Further, the 1991 policy invited foreign equity holdings upto 51 percent by international trading houses. For example, foreign companies have been allowed to use their trade marks in India and carry on trading activities. Further repatriation of profits by foreign companies has been allowed. Foreign companies wanting to borrow money or accept deposits do not require the permission of the Central Bank.

Several policy changes were made in the course of FDI Liberalization. (i) 100 percent FDI was permitted for business to business e-commerce; (ii) There was elimination of limit on foreign investment in the power sector; and 100 percent FDI was allowed in oil refining. FDI cap was raised from 49 percent to 74 percent in basic cellular and telecom services. FDI up to 100 percent allowed in airports (with approval of the GOI). FDI upto 100 percent for development of integrated township and regional urban infrastructure, hotel and tourism sector, Mass Rapid Transport Systems. The defence industry was opened up to 100 percent FDI. (Mishra Puri, 2013)

In January, 2004, the GOI raised FDI limit to 100 percent in petroleum sector, printing scientific magazines, and journals etc. Foreign investment in banking sector have been liberalized to a greater extent by raising FDI limit in the private sector banks to 74 percent (automatic route) by Foreign Institutional Investors. Further on January, 2008, the GOI relaxed the foreign ownership norms in aviation, mining, oil-refining, real estate, commodity exchanges and credit information companies. FDI limit in non-scheduled airlines, chartered airlines, and cargo airlines was raised to 74 percent (100 percent NRI investment approved). FDI in ground handling services and non-scheduled airlines was increased from 49 percent to 74 percent. FDI upto 100 percent was approved in maintenance, repair and overhaul. And in the field of mining, 100 percent FDI was allowed in titanium mining. From November, 2011 onwards, the GOI decided to permit brownfield investment in the pharmaceutical sector under the government approval route. The GOI further liberalized the FDI policy on January, 2012 in single-brand retailing. FDI upto 51 percent was permitted subject to specific conditions and up to 100 percent subject to GOI approval. Further in September, 2012, further liberalization measures was taken by the GOI. The measures included 51 percent of FDI to be allowed in multi-brand retail subject to state Government approval; FDI upto 74 percent allowed in the broadcasting sector; 49 percent of the foreign investment allowed in power trading exchanges and foreign airlines allowed to invest upto 49 percent in domestic airlines. (Mishra Puri, 2013)

The next section summarizes the earlier works done by prominent people in the field of globalization.

### 3. Literature Review, Methodology and Data Sources

Held et al. (1999) found that “globalization as new but not unique open-ended. According to him, globalization may go in many different directions. It may vary in the form as it takes by place and class over time. Waters (2001) found globalization as a process rather than end. However, Holton (2005) said that, “Globalization is more than movement and consist of few individuals (e.g. as in early trade). Holton also perceived “globalization as comprising awareness and identification of the world as a single place. Osterhammel and Peterssen (2005) stressed regularization and stability in global relations as a prerequisite for something being globalization.

#### 3.1. Case-Studies for the Indian Economy

Sharma (2009) examined how China and India had transformed themselves in terms of economic powerhouses. However, there were challenges which both the countries were facing and further examined how such challenges were required to be mitigated over the time. Pilania (2008) in his study found that the Indian foreign trade have progressed at a steady pace since independence. His results also concluded that exports have accelerated since post liberalization. Goyal (2006) in his study explored the various forms of the processes of globalization. Singh (2012) examined the reform process of India. He began his study from the pre-British decade to the economic reforms (1991) in terms of “Liberalization, Privatization and Globalization”. His study concluded that India needs a new set of reforms to become a global powerhouse in the coming decades.

#### 3.2. Other country studies

In view of foreign capital flows, Prasad et al. (2007), examined the impact of foreign capital inflows on the growth process for 78 countries. The findings conclude a positive growth benefits from foreign capital inflow for the industrial countries. Kose et al. (2006) conducted a study consisting of 71 countries. This study concluded no evidence of positive remunerations of capital account liberalization. Samimi and Jenatabadi (2014) examined the phenomenon of economic globalization on the growth process of OIC countries. Complementary policies and the growth effect of globalization on the income levels of the countries were examined. Using GMM framework and a dynamic panel data approach results indicated that economic globalization had a good impact on economic growth in OIC countries. Kilic (2015) examined the effects of economic, social and political globalization on the economic growth levels of 74 developing countries between the periods, 1981-2011. Results indicated that developing countries were positively affected by both economic and political globalization. Ying, Lee and Chang (2014) investigated the impact of globalization on economic growth of ASEAN countries from the period 1970 to 2008. Results indicated that economic globalization had a positive influence on economic growth. Suci, Asmara and Mulatsih (2015), analyzed the impact of globalization on economic growth of 6 ASEAN countries using a panel data analysis. The findings concluded a positive impact of globalization on economic growth of the ASEAN region including the positive impact of economic globalization. Reza and Hassan (2017) examined the economic globalization and the shadow economy nexus in Egypt. The study used time-series data from the

period 1976 to 2013 and the results obtained tells the importance of promoting economic globalization through minimizing the costs of doing business. Reeshan and Hassan (2017) examined the overall impact of political, social and economic globalization on the economic growth of 86 developing countries for the year 2015. The study used Gross Domestic Product and Foreign Direct Investment as the dependent variables. Multiple regressions were employed to find out the impact of globalization on the economic growth of the developing countries. Out of the other forms of globalization, Economic globalization was found to have a positive impact on the FDI inflows and negative impact on Gross Domestic Product.

Our study differs from the previous studies in the sense that we examine our study since the first economic reforms (1991). Our study broadly tries to examine economic globalization via two channels, i.e. trade openness and cross-country capital flows in terms of foreign direct liberalization flows since 1991. In other words, the time-period is chosen as such where we can capture the degree of openness through the process of globalization after suitable reforms initiated by the GOI since 1991. For this purpose, we extract data from secondary sources.

### 3.3. Research Methodology and Data Sources

An empirical analysis in the form of descriptive, graphical and tabular analysis have been done to explain the extent of Economic Globalization. The present study have used secondary data. Data and information related to economic globalization was obtained from books, journals and from official sources like RBI Annual Report, RBI Bulletin, World Investment Report, World Development Indicators, Monthly statistics of Foreign Trade of India-DGCI &S. However, to prove the process of increase in economic globalization, the factors assisting phenomenon of globalization needs to be examined.

## 4. Factors assisting the phenomenon of Economic Globalization in the 21st Century

With the beginning of the new millennium, the share of developing and emerging economies in global commerce increased from 31% (2000) to 43% (2015) of global exports. There has been an increase in the capital flows between advanced industrial and developing nations. The surge is mainly the outcomes of both “pull” and push factors. The cause behind the pull factors are liberalization of capital accounts, domestic stock markets and privatization programs launched on a massive scale. The “Push factors” mainly include the trade cycle situations and macroeconomic policy changes in the advanced countries.

In case of the Indian Economy, the main reasons attributed behind this spread of economic globalization are as follows:

- (i) There has been a reduction of government controls in terms of deregulation.
- (ii) Better transport and communications have led to expansion of business opportunities which further indicates more business ventures and opportunities.
- (iii) More awareness of profit opportunities resulting in quick movement of resources between nations.
- (iv) Advancement in technology have resulted in unskilled workers with minimal education participating in the modern production techniques. As a result, multinationals have increased their presence in the low-income countries where education standards are not very high. This implies expansion of markets for affordable high-tech commodities world-wide.
- (v) The trade and investment policies implemented by the GOI from time to time are integrated to the world economy. These policies have immensely benefitted the Indian Economy.
- (vi) Another reason behind the acceleration of the globalization process is a widespread trust that persons living in the wealthier nations will provide assistance to people residing in the Developing and Third World nations. The objective is to help make better material living standards for all. The simple explanation runs something like this. Globalization will help in the removal of tariff protection and encourage countries to specialize in specific areas of production in which they have some form of cost advantages.

In addition to the above mentioned factors, Multinational Corporations have also played a prominent role over the time.

*Multinational Corporations (MNCs):* The role of private foreign capital was explicitly recognized since the first economic reforms in the year 1991. Since the economic reforms, 1991, the bulk of foreign capital and investment were mainly done by the MNCs. Multinational corporations (MNCs) have become the chief way towards economic globalization. Their main role of MNCs is organizing production, allocation of resources for profit maximization, and reshaping macroeconomic tools.

*Role of MNC's:* The unwillingness of the developed countries to contribute towards the financial assistance to the developing countries have allowed the MNCs play a prominent role. The MNC are capable of providing the foreign investments. The liberalized foreign investment policy in India have allowed the MNCs to increase their investment limit. In some cases, 100 percent of foreign investment in the export-oriented units (EOUs) have also been allowed. There are numerous channels through which the MNCs can invest in the economy.

*Non-Debt Creating Capital Inflows* are one of the main source of external commercial borrowing (ECB). MNC'S invest in non-debt creating capital inflows and the servicing of non-debt capital. It begins when the MNC firm have reached a stage for profit repatriation. Therefore, MNCs help in minimizing stress and pressure on the balance of payments account.

*Technology Transfer:* MNCs are capable of transferring high sophisticated technology, technical know-how, new equipment and machinery to the developing countries. The skilled Indian workers and engineers get to know about the advanced technology. Apart from this, the large MNCs can spend a larger amount on advanced technologies to promote Indian exports.

*Promotion of Exports:* With widespread links and producing products resourcefully at a lower cost, the MNCs can play an important role in stimulating exports. Multinationals have made large investment in the economy. For example, Maruti cars are not only domestically sold but are also exported to foreign countries. The Government of India have granted permission to the MNCs to export the product and earn a foreign exchange in return (subject to certain restrictions).

*Investment in Infrastructure:* The multinational corporations have the capability to investment in infrastructure for the growth of the Economy. The investment takes several forms such as power projects, modernization of airports, greater telecommunication connectivity and posts etc. The increased investment in the infrastructure projects have given a boost to industrial growth. Further, the acceleration in the investment have also helped in creating higher income levels and employment. The external economies generated by investment in infrastructure by MNCs and stimulate economic growth in the economy. According to the *Emerging Market*

*Private Equity Association (EMPEA)*, "India have developed as the most attractive emergent market for worldwide partners to invest in the future. Further, the annual FDI inflows are expected to rise to US\$75 billion in the upcoming years". Lastly, the *World Bank* said that the "Indian private investments is projected to grow by 8.8 percent in the year 2018-19".

## 5. Recent FDI status and announcements

Asia has regained its position as the largest FDI recipient region. The largest recipients were China, Hong Kong (China) and Singapore. Looking at the Indian Economy, we find India has improved its ranking from 44 to 40. This is the evident from the table below:

**Table 1.** FDI Flows in the top 20 host countries 2016 and 2017 (Billions of dollars)

Countries	Rank	2016	2017
United States	1	457	275
China	3	134	136
Hong Kong, China	4	117	104
Brazil	7	58	63
Singapore	6	77	62
Netherlands	5	86	58
France	14	35	50
Australia	9	48	46
Switzerland	8	48	41
India	11	44	40
Germany	19	17	35
Mexico	16	30	30
Ireland	20	15	29
Russian Federation	13	37	25
Canada	12	37	24
Indonesia	47	4	23
Spain	18	20	19
Israel	27	12	19
Italy	17	22	17
Republic of Korea	26	12	17

**Source:** World Investment Report, 2018

Till date, the main sectors receiving maximum foreign inflows are services, computer software and hardware, telecommunication, construction, and trading in automobile respectively. India has attracted highest FDI equity inflows from countries such as Mauritius (US\$15.94 billion) followed by Singapore (US\$12.18 billion), Netherlands (US\$2.80 billion), USA (US\$2.10 billion) and Japan (US\$1.61 billion). According to Department of Industrial Policy and Promotion (DIPP), FDI investments in India stood at an amount US\$44.86 billion in 2017-18 and the Indian service sector has attracted FDI equity inflow amounting to US\$6.71 billion. The FDI equity flows stood around US\$3.31 billion (March, 2018).

#### 5.1. FDI announcements

A key number of announcements were made from time to time regarding FDI investments. They are as follows:

- (i) Idea's petition for 100 percent FDI have been approved by Department of Telecommunication.
- (ii) 39 Memorandum of Understanding (MOUs) were signed for investment of Rs. 4000- 500 crore in the North East region.
- (iii) DIPP have approved FDI applications of Damro Furniture and Super Infotech Solutions.
- (iv) The Department of Economic Affairs, have sanctioned two FDI applications worth Rs. 532 crore.
- (v) International Finance Corporation (IFC), is scheduling to spend about US\$6 billion in numerous sustainable energy programmes by 2022.

- (vi) The GOI have given permission to overseas airlines to collaborate with Air India subject to a limit of 49 percent.
- (vii) No government approval required for FDI in Real Estate Broking Services.
- (viii) The GOI have asked the states to focus on the strengthening of the single window clearance system for improvement of Japanese investments.
- (ix) The Ministry of Commerce and Industry, Government of India has eased the approval mechanism for future foreign direct investment (FDI) proposals
- (x) The GOI have given permission of 100 percent FDI in single brand retail via automatic route.

## 6. Foreign Trade Policy Developments and Announcements

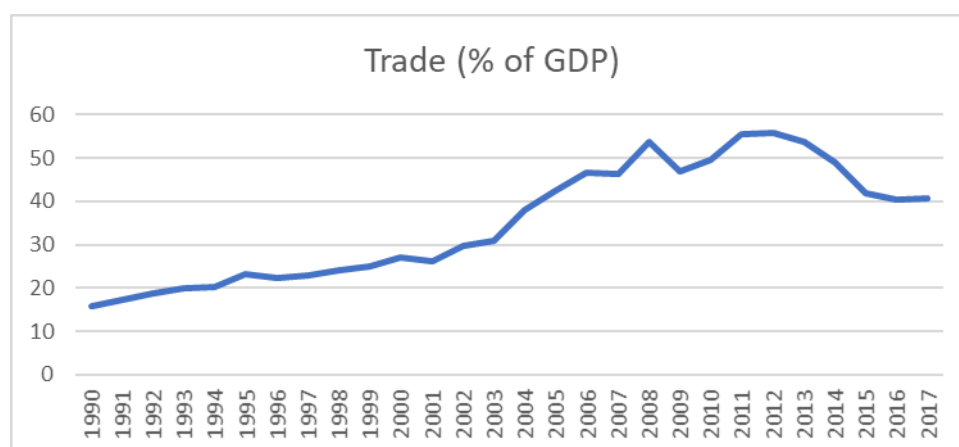
The integration of the domestic economy has resulted in growth of trade from Rs. 32 trillion (US\$474.37 billion) in 2004 to Rs. 153 trillion (US\$2.3 trillion) in 2016. The total merchandise exports reached approximately US\$25.83 billion (Ministry of Commerce). [For details refer to the Appendix].

- (i) Bilateral trade between India and Ghana is expected to reach around US\$5 billion in the future years.
- (ii) India had reviewed its suggestion on trade facilitation for services at the World Trade Organization (WTO).
- (iii) Indian exports of merchandise goods is projected to touch US\$325 billion in 2017-18.
- (iv) The GOI have permitted the planned MOU between Export-Import Bank of India (EXIM Bank) and Export-Import Bank of Korea (KEXIM).
- (v) In March, 2017, the customs convention on the international transport of goods was signed.

### 6.1. Trade Announcements:

- (i) The possibility of Merchandise Exports from India Scheme (MEIS) and Service Exports from India Scheme (SEIS) has improved after the mid-term review 2015-20.
- (ii) Support for export under the Merchandise Exports from India Scheme (MEIS) have increased for several items under export.
- (iii) The Central Board of Excise and Customs (CBEC) has established an “Integration declaration” process.
- (iv) Comprehensive Economic Partnership Agreement was signed between South Korea and India.
- (v) RBI has streamlined the rules for exporters to obtain loans in the future.

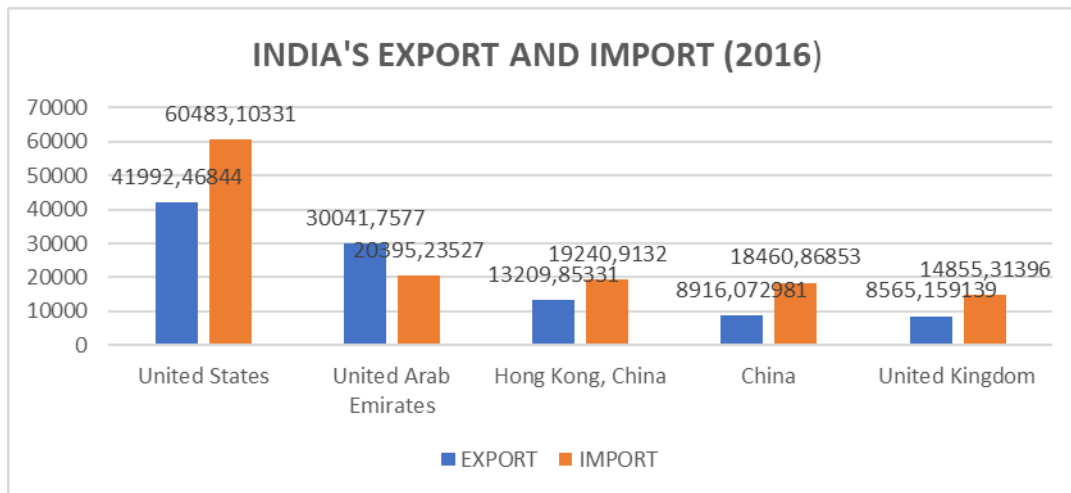
Recent data and figures obtained over the years from the World Development Indicators show that India has improved its trade as a percentage of GDP over the years. This fact is clearly evident from Graph 1.



**Graph 1.** Trade as a (% of GDP)

**Source:** World Development Indicator





**Figure 1.** India's Trade Volume Its Trading Partners (2016)

**Source:** World Development Indicators (2016)

From Figure 1, it is evident that India's main export destinations are United States, United Arab Emirates, Hong Kong, China and United Kingdom. The largest trading partner till date is the United States. However, in spite of the rise in the trade volume and agreements, there lies certain challenges and barriers which creates obstacles in the path of economic globalization.

**FDI flows, Trade integration and Economic growth:** With the onset of the economic reforms in 1991, the flow of FDI rose considerably. This is evident from the figures available with the RBI. Furthermore, with the increase in the cross-border flows in the form of direct investment, gross investment and portfolio flows, there was an increase in the magnitude of exports. Available figures prove that with opening of the economy, India witnessed a higher economic growth indicate through the rise in Gross Domestic Product rate over the years. (For details, refer to the Appendix for details).

## 7. Challenges in the way of India's economic globalization

With the onset of economic globalization, numerous risks and challenges come in the path of the developing countries, including India. According to the classical theory, the integration of global economy is accompanied by prosperity. This is especially true in the context of the developing country. The developing country can easily access imported capital goods and latest technology. However, on the contrary, it also shows a diminution in the ability of the governments to establish regulatory and redistributive policies. This in turn limits the social wellness. In a number of incidents, the developing countries are found to be lacking in strong and efficient institutions. They are not capable of managing the impact of economic globalization completely. There are inherent threats in the form of global completion with local or domestic companies.

There are numerous difficulties on trade and investment fronts. For example, imports have increased over time as the demand for foreign goods have surged. The local goods may not be competitive enough or of sound quality as compared to their foreign imported goods. The domestic companies have to bear the loss as they might not be able to compete with the foreign goods (produced through superior technology). The second challenge is the persistent rise in trade deficit and a negative trade balance over the years. Tackling of negative trade balance is a difficult task as it needs considerable balance of payment corrections. The third challenge lies in the rise of the number of regional integration over the years which have resulted in the share of intra-regional trade in total trade remaining constant. The fourth problem is associated with the international investment in the form of foreign portfolio investment. This foreign portfolio investment is found to cause more damage to the economy. This is due to its volatile nature. There needs to be suitable solution or measure to correct this problem. Lastly, the MNC's are sometimes found to distort the economic structure of the host country by adopting several oligopolistic practices. This leads to suppressing of domestic entrepreneurship which is harmful for further growth of domestic startups and enterprises. As a result, the emergence of small scale, local enterprises and growth of indigenous technology is being affected in the long run.

## 8. Conclusion, remedial measures and limitations of the study

In the past 20 years, India have experienced many true economic success stories. The result is upgradation of status of from developing country to that of the emerging country. The success have increased manifold mainly because of the growing integration of India with other international markets. The BRICs (Brazil, Russia, India and China) have become a promised land for many foreign investors as it offers plenty of opportunities.

Globalization is a phenomenon of incorporation and interaction among different people residing in various parts of the world. In the real sense, it involve the interplay of the market, technology, and State. With time, the share of the developing countries have increased their share in the world trade and witnessed an improvement in capital flows. Economic globalization have been found to have a greater impact on the developing countries. The usage of advanced transport and communication facilities have resulted in greater movement of capital and trade across borders. The other factors involved are technological improvements, relaxation in government controls and better trade and foreign investment policies. MNCs have been found to play a vital role and is consistently attracting non-debt capital flows, upgraded technology & know-how, accelerated exports and improved the infrastructural developments in the country.

In matters of FDI flows, India continues to receive a good volume of FDI inflow. It improved its ranking from 44 to 40 in terms of FDI attractiveness. The GOI have taken numerous measures from time to time to improve the business climate. There have been an improvement in liberalized FDI flows in new and existing sectors of the economy. On the trade front, the GOI has liberalized and reformed the trade policies conducive with the requirement of the economy. For example, it has simplified the rules for providing credit to exporters. In addition, export subsidies are always there to boost exports. Looking at the statistics, we clearly see that trade as a percentage of GDP have improved over time. India has successfully ventured itself into a number of trade agreement with nations such as Japan, South Korea and other European countries.

However, despite the progress on economic front, challenges such as favorable regulatory & redistributive policy, threats from the global MNCs to local companies, MNCs adopting oligopolistic practices (leading to distortion of economic structure) and share of intra-regional trade in total trade remaining constant continues to be there.

Some remedial measures can be taken to address the challenges. Measures include reducing the value of the exchange rate can help in matters of reducing trade deficit. In addition to this, imposition of higher tax and lower government spending will also help in improving the export competitiveness. In matters of foreign portfolio investment, stricter control and regulation by Securities and Exchange Board of India (SEBI) can control the problem of volatility of money referred to as "hot money". Lastly, the GOI can always use the latest services and technology to differentiate its product in the market and increase its intra-regional share of trade.

*Policy Suggestions:* The GOI should formulate policies to improve the Infrastructure of the Indian Economy. Efficient institutions and frameworks would help in resisting global shocks (via Economic Globalization). Suitable business environments would also attract foreign companies in the form of collaborations and mergers with Indian Domestic Companies.

### *Limitations of the study*

The study fails to capture the phenomenon of economic globalization in terms of econometric analysis. A future research work could be done through a detailed empirical analysis using better econometric exercise. This would succeed in capturing the true picture and magnitude of economic globalization. A Panel data exercise may be conducted from the time-period starting from economic reforms (1991). The study can further be extended by capturing the other important aspects like income level, education, skilled labor force and technological know-how etc. The chapter is expected to throw a preliminary knowledge of the phenomenon of economic globalization and how far the Indian Economy had succeeded in integrating itself with the global world since the first set of economic reforms in 1991. With time, as further technological advancement and new developments have taken place more spillover of economic globalization on the growth process is expected.

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