India & Globalization

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India - Today

- -Indian Economy - Precolonial and Colonial
- Cambridge University historian Angus Maddison reveals that India's share of the world income fell from 22.6% in 1700, comparable to Europe's share of 23.3%, to a low of 3.8% in 1952
- Post-colonial Indian economy: Evolution from closed to open economy
- Nehruvian Period, 1947-64; His Vision and Policies (Vedio)
- Indira Gandhi and Economic reforms—Nationalization; Privy Purses- Green Revolution
- Rajiv Gandhi-Pre liberalization phase- IT * Infrastructure
- PV Narsimha Rao and LPG, 1991-2004
- Dr Manmohan Singh and New Economic Reforms

India - Today

- India is the seventh largest and second most populous country in the world
- New spirit of economic freedom in the country, bringing sweeping changes
- Economic reforms aimed at deregulating the country and stimulating foreign investment has moved India firmly into the front ranks
- India's process of economic reform is firmly rooted in a political consensus that spans her diverse political parties
- Democracy is a known and stable factor

Pre-Globalization Economy

- Closed Economy Economic Crisis; inward looking; Emphasis on Self reliance and independence
- Protectionism & Import substitution. NO Export-Orientation.
- Socialist Pattern of economic model. Controls on Private capital. No welcome to Foreign Capital: Examples of IBM& COCA COLA
- High tariffs, Licences, Market control. No free trade policies

Pre-Globalization Economy

- No free Imports, No Foreign enterprises
- GDP declined & Industrial production declined less then 1% growth rate
- Indian economy was in crisis in July 1991, when foreign currency reserves had plummeted to almost $1 billion; Inflation had roared to an annual rate of 17 %
- Foreign investors and NRIs had lost confidence in Indian Economy. Capital was flying out of the country and country was close to defaulting on loans.

Pre-Globalization Economy

- Protectionism rampant
- Major industries like Steel, mining, machine tools, water, telecommunications, insurance, and electrical plants, among others, were effectively nationalized in the mid-1950s
- Elaborate licenses, government regulations and the accompanying red tape and inefficiency commonly referred to as Licence Raj, were rampant between 1947 and 1990

India Entering the Global Market

- Until the liberalization of 1991, India was largely and intentionally isolated from the world markets
- Indian economy had experienced major policy changes in early 1990s - **Liberalization, Privatization and Globalization (LPG model)**
- Some reform occurred in 80s, major changes resulted due to financial crisis of 90s
- More open and market oriented – End of License Raj and state monopolies – Foreign direct investment could come into the country

India Entering the Global Market

- 1st step towards globalization was taken with the announcement of the devaluation of Indian currency by 18-19 percent against major currencies in the international foreign exchange market
- Finance Minister Manmohan Singh said: “After four decades of planning for industrialization, we have now reached a stage where we should welcome, rather fear, foreign investment. Direct foreign investment would provide access to capital, technology and market.”
- Period of economic transition has had a tremendous impact on the overall economic development of almost all major sectors of the economy + integration into world market

India in the Global Market

- Industry accounts for 27.6% of the GDP and employ 17% of the total workforce. One-third of the industrial labour force is engaged in simple household manufacturing.
- India is 16th in the world in factory output Textile manufacturing. It is the second largest source for employment after agriculture and accounts for 26% of manufacturing output.
- Rich mineral resources available in India
- Power supplied with country’s coal supply (10% of World’s total reserves)

Main Aspects of Reform in 1991

- Liberalization of Trade and Industrial Controls like free access to Imports
- Fiscal reforms and Devaluation of Rupee
- Dismantling of Industrial Licencing System and abolition of Monopoly Trade Practices Act. Free hand to Big Business Houses
- Reform of Public Sector and Gradual Privatization
- Import liberalization, Reform of Capital markets, Stock exchanges, Banking and Financial Reforms
- Removal of restrictions on Multinational Corporations and Foreign Investments
- Economy was freed from stifling internal controls and allow competition and foreign capital & resources
- The New Industrial Policy of 1991;

Indian Reform in Numbers

- Liberalisation of the domestic economy and the increasing integration of India with the global economy have helped step up GDP growth rates, which picked up from 5.6% in 1990-91 to a peak level of 7.78% in 1996-97.
- Global comparison shows that India is now the fastest growing just after China.
- Major improvement given that India is growth rate in the 1970's was very low at 3% and GDP growth in countries like Brazil, Indonesia, Korea, and Mexico was more than twice that of India.
- In 2003, Goldman Sachs predicted that India's GDP in current prices will overtake France and Italy by 2020, Germany, UK and Russia by 2025 and Japan by 2035. By 2035, it was projected to be the third largest economy of the world, behind US and China.

Practical Measures of Liberalization

- THREE D'S-- Devaluation: Disinvestment- Dismantling of The Industrial Licensing Regime
- Under the privatization scheme, most of the public sector undertakings have been/ are being sold to private sector
- Allowing Foreign Direct Investment
- Non Resident Indian Scheme.. SBI RESURGENCE BONDS, MILLINIUM BONDS etc.,
- Throwing Open Industries Reserved For The Public Sector to Private Participation. Telecommunications, Oil & Gas, Power etc.

Impact of Reforms

- The rate of growth of the Gross Domestic Product of India has been on the increase from 5.6 per cent during 1980-90 to seven per cent in the 1993-2001 period.
- Prime Minister Manmohan Singh is confident of having a 10 per cent growth in the GDP in the Eleventh Five Year Plan period.
- The sectors attracting highest FDI inflows are electrical equipments including computer software and electronics (18 per cent), service sector (13 per cent), telecommunications (10 per cent), transportation industry (nine per cent), etc. In the inflow of FDI, India has surpassed South Korea to become the fourth largest recipient.
- India controls at the present 45 per cent of the global outsourcing market with an estimated income of $ 50 billion.

India’s Economy

- In respect of market capitalization, India is in the fourth position with $ 894 billion after the US ($ 17,000 billion), Japan ($ 4800 billion) and China ($ 1000). India is expected to soon cross the trillion dollar mark.
- As per the Forbes list for 2007, the number of billionaires of India has risen to 40 (from 36 last year)more than those of Japan (24), China (17), France (14) and Italy (14) this year.
- India ranks second worldwide in farm output.
- Agriculture and allied sectors like forestry, logging and fishing accounted for 16.6% of the GDP in 2007, employed 60% of the total workforce

India’s Economy

- India is the largest producer in the world of milk, cashew nuts, coconuts, tea, ginger, turmeric and black pepper. It also has the world's largest cattle population (193 million). It is the second largest producer of wheat, rice, sugar, groundnut and inland fish. It is the third largest producer of tobacco. India accounts for 10% of the world fruit production
- India's large service industry accounts for 54% of the country's GDP while the industrial and agricultural sector contribute 29% and 17% respectively.
- The foremost casualty in the globalization process will most likely be the agriculture sector. Agriculture has been and still remains the backbone of the Indian economy.
- The number of rural landless families increased from 35 per cent in 1987 to 45 per cent in 1999, further to 55 per cent in 2005. The farmers are destined to die of starvation or suicide.

India's Economy

- Social Sectors like Education, Public Health, and Social Welfare Declined. Privatization & Commercialization of Education & Health Sectors and Withdraw of Government from Welfare Sector.
- Sanitation, Sewerage, Infrastructure development is not satisfactory, Unemployment, Urban Poor are growing problems.
- Despite robust economic growth, India continues to face many major problems.
- Economic development has widened the economic inequality across the country
- Approximately 80% of its population lives on less than $2 a day (nominal), more than double the same poverty rate in China
- Arrival of Green Revolution brought end to famines in India