

The impact of globalization on Indian economy since 1990s.

Shuyi Wang^{1,2,*}

¹School of Law and Humanities Beijing, 100000, China

²China University of Mining and Technology, Beijing, 100000, China

*Corresponding author: 1810810121@student.cumtb.edu.cn

Keywords: Globalization, Indian Economy, New Economic Policy, Economic Growth Model.

Abstract: Since India first adopted the policy of "liberalization, privatization and globalization" in 1991, the process of globalization in India has accelerated considerably and has had a number of socio-economic implications for India. These effects are both positive and negative. Based on 21 articles and available public data, this paper analyzes the impacts of globalization on India's socio-economic structure, import and export trade, unemployment and inequality, and the economic model adopted by India, and finally concludes that after the formal launch of the globalization process, India is essentially using the "Across-Industrialization" economic development model to promote national development and progress and achieve rapid economic growth. This study is important, because the trend of economic globalization is unstoppable, the conclusion of this paper will provide a reference for other developing countries to deal with economic globalization and promote their own economic development.

1. Introduction

In the 1970s, the world economy showed a trend of globalization, and by the early 1980s, globalization had developed into a strong driving force for the development of the world economy. In the 1980s, under the pressure of sluggish GDP growth, India enacted new industrial policies and began trying to move closer to "globalization". In 1991, India was plunged into an unprecedented balance-of-payments crisis and forced to embark on neoliberal economic reforms aimed at reducing its macroeconomic imbalances and making it the fastest growing and globally competitive economy. Since then, India has officially entered the stage of globalization, India's economy began to truly integrate into the global economy.

The impact of globalization on India's economy is manifold. Globalization has exacerbated India's interconnectedness with the rest of the world market, and this "relevance" is reflected in many aspects of the Indian economy. As a result, many scholars have tried to study some aspects of the Indian economy. The vast majority of papers describe the impact of globalization on India's economic growth and its impact on developments in the industrial sector, foreign trade and investment, the agricultural sector, and some relevant literature examines the adverse effects of globalization on poverty, inequality, employment, etc. Much of the research has been limited to the performance of the effects of globalization and to the value judgment of its impact, although most of the conclusions suggest that globalization has both positive and negative effects on the Indian economy, it is rare to conclude on the basis of these changes the impact of globalization on the logic of India's economic growth and the characteristics of India's post-globalization economic growth model. In order to better play the role of globalization in promoting India's economy, this paper will mainly discuss the impact of globalization on India's industrial structure, financial sector, foreign trade, employment, and so on since the 1990s, in order to better summarize the changes in India's economic development model, as well as the future prospects of India's economic globalization process.

1.1 LPG policy

On 24 July 1991, Man Mohan Singh, then Minister of Finance of India, proposed a new economic policy, known as the Liberalization, Privatization and Globalization Policy (LPG), also known as the "New Economic Policy". These include the abolition of the industrial licensing system, the reduction of tariffs and interest rates, the deregulation of markets, the transformation of state-owned enterprises into private enterprises, and the granting of foreign capital direct investment [1, 2].

1.2 Definition of globalization

Globalization is a large-scale dynamic process. The academic literature divides globalization into three major areas: economic globalization, cultural globalization, and political globalization. To avoid confusion, the globalization mentioned in this article only refers to economic globalization. Economic globalization is based on a market economy. It connects the whole world into a unified big market through the trans-regional movement of production factors such as goods and services, capital, technology and labor, strengthening the relevance and interdependence among the various countries. Each of countries gives play to their respective advantages in this enormous market, so as to realize the optimal allocation of resources among all over the world. It is usually manifested as production globalization, trade liberalization, financial capital globalization, regional-bloc economy, etc. [3, 4]

1.3 Literature Review

A. P. Dongre [5] noted that globalization had led to technological improvements in India's industrial sector, the removal of many regulations and restrictions, and the increased enthusiasm of relevant enterprises, thereby creating more wealth, providing more jobs and having a positive impact on the Indian economy.

M. K. Sinha [6]: India's share of the world has not been as high as expected, despite the shift in India's foreign trade strategy from "import substitution" to "encouraging exports" in the era of globalization.

S. A. Aiyar [7] noted that India's reforms since 1991 had transformed it from a low-income to a middle-income country, an outcome that largely reflected the success of the private sector and the failure of the government sector.

Much of the available literature focuses on the impact of globalization on individual sectors of the economy and less on the underlying mechanisms of the Indian economy as a whole and its components.

It is clear that most scholars' research shows that globalization has had many beneficial effects on India's social economy. However, there is also a part of the view that globalization has had many adverse effects. V. Kalaiselvi [8], in studying the impact of globalization on Indian industry, found that India's globalization process has led to an increase in the "Matthew effect" of the industrial sector, large Indian companies and multinational companies are benefited from LPG policies, the development process is accelerating, while small-scale industries are gradually concentrated in the hands of large enterprises, resulting in the gradual loss of basic resources to grow and develop, will eventually be eliminated by the times. A. Banerjee [9] also noted in his article "GLOBALIZATION IN INDIA: THE KEY ISSUES" that globalization has not and cannot have any beneficial impact on all sectors of Indian society. Privatization that accompanied globalization, the elimination of subsidies for basic commodities and the introduction of foreign direct investment in a number of areas have led to problems such as inflation and corruption. He also points out that in the future, inequality in Indian society will deepen as social unrest increases.

This article uses "Globalization" "LPG policy" and "Indian economy" as the keywords and searches the Google Scholar platform for articles from 2001 to the present. After screening, a total of 20 articles are included in the scope of this article. Next, based on these articles, this paper will analyze the "impact of globalization on the Indian economy" and summarize the characteristics of India's economic development model under the influence of globalization.

2. Impact of Globalization on Indian economy

Before addressing the positive or negative impact of globalization on the Indian economy, it needs to be made clear that the launch of the "LPG Policy" by the Government of India in 1991 marked the official beginning of the process of globalization in India (A. P. Dongre et al.).

In studying the impact of globalization on the Indian economy, we need to focus not only on the "quantitative" changes brought about by globalization, but more importantly, on how globalization affects the transmission mechanism of the Indian economy, that is, how globalization affects the Indian economy. Therefore, this paper will take India's LPG policy as the starting point, analyze the 1991 neoliberal reform of the Indian economy to what impact, show what significant changes. Based on a literature review and available public data, this article will focus on five areas that have been significantly affected by globalization:

2.1 The impact of globalization on industrial structure

Kamlesh Goyal [2] shows that globalization has not only increased India's gross domestic product, but also changed the growth of India's economic sector and changed the country's industrial structure. Since the implementation of the LPG reforms in 1991, India's industrial sector as a share of GDP has fallen from 26.6 % in 1990 to 26.0 % in 2016 [10], and agriculture's share of GDP has fallen from 29 % in 1990-1991 to 16 % in 2009 [11]. However, as a result of the combined effects of globalization and market economy, India's has been further developed. In the early 21st century, the contribution of services to GDP exceeded the total of agriculture and industry; by 2017, the proportion of services output had reached 61.7%, contributing to a sharp increase in India's share of GDP in the world economy and prompting India's industrial structure transforms from the pre-globalization "Tertiary-Primary-Secondary" to the current "Tertiary-Secondary-Primary". This shift marks the beginning of an era of the "knowledge economy" in India. Key economic indicators of 1990, 2000, 2010 and 2017 are shown in Table I.

Table 1. Industrial structure OF India (as % of GDP)

| Year | Agriculture | Industry | Services |
|------|-------------|----------|----------|
| 1990 | 29.0 | 26.6 | 44.4 |
| 2000 | 23.0 | 26.0 | 51.0 |
| 2010 | 18.2 | 27.1 | 54.7 |
| 2017 | 14.8 | 23.5 | 61.7 |

Source: Reserve Bank of India <https://www.rbi.org.in/Scripts/AnnualReportPublications.aspx?Id=1329>, India's Ministry of Statistics & Programme Implementation <http://mospi.nic.in/data>.

2.2 International trade (import and export trade) and investment after economic reform

India's internalization of trade during the globalization era has been very encouraging [12]. Prior to the 1990s, India had long adopted import substitution policies in its foreign trade to promote its own industrial development. Since 1991, under the influence of economic globalization, India has gradually changed its economic development strategy, implemented trade liberalization policies, established special economic zones, and implemented tax incentives and relief measures, greatly reduced tariffs, and actively participated in the international division of labor. These incentives have led to a remarkable increase in India's international trade, which has been on the rise since 1991 in terms of the overall trend in import and export trade. As shown in Table II, total trade grew nearly 15-fold from \$37.41 billion to a high of \$570.4 billion in the 20 years from 1991 to 2010. In addition, in order to make better use of the opportunities presented by the international situation, India further adjusted its import and export trade policy in 2001, moving from easing tight restrictions to expanding exports and striving to provide an enabling environment for the promotion of import and export trade.

Although India's total trade grew every year, export growth remained relatively low compared with imports, and India's trade balance was in deficit for almost all years after 1991 [2].

Table 2. International Trade Performance of India: (Unit: in hundred million US dollars)

| Year | Exports | Imports | Total value of import and export | Balance of trade |
|------|---------|---------|----------------------------------|------------------|
| 1991 | 178.9 | 195.1 | 374.1 | -16.1 |
| 1995 | 316.9 | 365.9 | 682.9 | -48.9 |
| 2000 | 423.6 | 529.4 | 952.9 | -105.8 |
| 2005 | 1003.5 | 1408.6 | 2412.1 | -405.1 |
| 2010 | 2204.1 | 3500.3 | 5704.4 | -129.6 |

Source: The United Nations Comtrade database <https://comtrade.un.org/labs/data-explorer/> 2021.9

2.3 Globalization has promoted financial sector reform

Financial sector reform has been the focus of economic reform in successive Indian governments. Prior to the 1991 reforms, India's banking sector was highly regulated by a social control policy that provided for the use of bank-led financial development needs to meet the needs of disadvantaged agriculture and other priority sectors. However, the severe balance-of-payments crisis of the early 1990s led the Indian government to strengthen the market-oriented reform of the banking and financial sector and bring the exchange system gradually into line with international standards.

During the globalization era, India took a series of measures to ease restrictions on the financial sector and boost its vitality. Beginning in July 1991, the Government of India lowered the ratio of its currency to the United States dollar [13], while gradually reducing the statutory liquidity and cash reserve ratios, which in 2001 would increase from 15 per cent in 1991 to 7.5 per cent. After 1991, the control of deposit and loan interest rates of commercial banks was gradually relaxed. On the capital side, limit short-term debt capital inflows and encourage long-term capital and foreign direct investment inflows [14].

All of these measures have led to higher savings and investment rates in India, with consumption driving economic growth. India's average annual savings and investment rates were 19.4 per cent and 21.2 per cent, respectively, in 1989-1990, while by 2006-2007 they had shown significant growth, at 34.8 per cent and 35.9 per cent respectively [15].

2.4 The impact of globalization on India's labor market and the gap between the rich and the poor

Globalization as a whole has exacerbated India's unemployment problem. R. Albert Christopher Dhas's analysis of employment in various sectors in India found that, although the absolute value of total employment following the liberalization reforms of 1991 showed a trend of growth, employment growth showed a downward trend. Prior to the reform (1983-1994), employment in the organized sector grew by 1.2 per cent per year, compared with 0.05 per cent per annual rate following the reform in 1994-2008, and even negative growth in the public sector. The 68th latest survey by the Office for National Statistics shows that the percentage of the total population employed fell in 2011-2012 [2].

Table 3. Statistics of India Unemployment Rate (%)

| Year | 1993 | 2000 | 2010 |
|-----------------------------|------|------|------|
| <i>Rate of unemployment</i> | 5.99 | 7.32 | 10.7 |

Source: CIA World Factbook, <http://www.indexmundi.com/india/> 2021.9

As can be seen from the Table III, the official unemployment rate data have declined in some years, but statistics from 1993-2010 show an overall upward trend in the unemployment rate. After the economic reforms in 1991, India's economic growth was remarkable, and it formed a service-led economic structure. However, since the manufacturing-focused real economy is the foundation and source of power for sustaining economic development [16], and India's lack of sufficiently developed industries to absorb large rural surplus labor, the agricultural sector still provides employment for about 60 per cent of the labor force. India's existing service-led growth model can be found to be of

little help in "providing employment for India's large unskilled workforce", while economic growth without employment will exacerbate social inequalities and lead to more serious social problems [12].

Indeed, unemployment means that the labor force has lost its original source of income, so the unemployed in turn have been transformed into the poor. Some people in Indian society, such as those working in high-tech industries, are increasing their wealth because of the opportunities created by globalization, while others are poor because they are unemployed. The polarization between rich and poor in Indian society has been further widened.

2.5 The impact of globalization on India's economic growth model

In the 1990s, the Indian government implemented economic reforms characterized by "Neoliberalism" due to economic globalization and the balance-of-payments crisis. The reform covers all aspects of India's economy, such as industry, finance, trade, finance, enterprise and many other areas. Lots of areas have undergone major changes, so that India has gradually formed a new model of economic growth with Indian characteristics.

Huang Yongchun [17] research shows that the "pre-industrialization" model is a country's usual economic development model, that is, the proportion of national income and labor force in agriculture gradually declined, the initial economic development; The proportion of industrial national income and labor force has increased, and the economy has further developed; Finally, the proportion of national income and labor force in the service industry began to rise, and the economy gradually prospered.

However, by comparing the differences in the internal structure of India's economic growth, finance, industry, consumption and investment before and after globalization, it can be summarized that globalization has led India to form its own unique economic growth model. This pattern shows the following characteristics:

1) *The "Across Industrialization" economic growth model— direct access to services rather than manufacturing, bypasses the industrialization phase.*

2) *Domestic market-driven growth models— dominated by domestic investment and consumer demand, rather than export trade and investment.*

3) *The capital formation depends on liberalized markets and stable financial systems*

From the above analysis, it can be concluded that, taken together, the positive impact of globalization on the Indian economy is greater than the negative impact. Globalization has made a huge contribution to India's economic development, and since the neoliberal reforms were implemented in 1991, India has become Asia's third-largest economy. Globalization has changed India's original industrial structure to form a new type of industrial structure with modern service industry as the pillar, in foreign trade, globalization has also promoted the development of India's import and export trade, and India's promotion and support for international trade has also promoted India's progress in globalization. At the same time, however, globalization has exacerbated the problem with regard to employment and income inequality. Therefore, the government needs to pay more attention to maintaining the balance between economic growth and social equity in the future development, so that economic growth can be promoted at the same time as social equity. This will better remove the obstacles to India's globalization and enable the Indian economy to grow steadily.

3. Conclusion

This paper finds that the impact of globalization on all aspects of India's economy is not isolated but interrelated. It is precisely because of this wide correlation that globalization has profoundly affected the internal structure and growth logic of the Indian economy, allowing India to gradually develop a new model of economic growth, which now appears to be the internal mechanism of India's rapid economic growth since the 1990s. However, in view of India's economic development, its sustainability has yet to be tested.

Using a comparative approach, this study describes India's policies and current achievements in the process of globalization in terms of industrial structure, international trade, unemployment rate and

the gap between rich and poor, and finance, and concludes that India adopted a "trans-industrial" economic development model to promote national development and progress after 1991. This study is essentially an analysis of historical results, and future research should focus more on testing and predicting the sustainability of this economic development model through empirical analysis and quantitative research.

References

- [1] S. V. Ravan, "Impact of LPG on Indian Economy," *Prime International Research Journal*, vol. 1, no. 4, pp. 21 - 33, 2014.
- [2] K. Goyal, "Globalization and its impact on transforming India's economy," *International Journal of Research in Management and Business Studies*, vol. 3, no. 4, 2016.
- [3] Q. Li and R. Reuveny, "Economic globalization and democracy: An empirical analysis," *British journal of political science*, vol. 33, no. 1, pp. 29 - 54, 2003.
- [4] G. Thompson, "Economic globalization," in *A Globalizing World: Culture, Economics, Politics*, 1 ed., 2000, ch. 3, pp. 92-94. Routledge.
- [5] A. P. Dongre, "Policy changes in the wake of globalization and its impact on Indian industries," *Journal of Policy Modeling*, vol. 34, no. 3, pp. 476 - 496, 2012, doi: 10.1016/j.jpolmod.2011.10.004.
- [6] M. K. Sinha, "STRUCTURAL CHANGE IN COMPOSITION OF INDIA'S EXPORT DURING POST-ECONOMIC REFORM PERIOD," *Business Analyst*, vol. Vol. 37 No. 1, 2016.
- [7] S. S. A. Aiyar, "Twenty-Five Years of Indian Economic Reform.pdf," *Policy Analysis*, no. October 26, 2016, October 26, 2016, 2016, Art no. Number 803.
- [8] V. Kalaiselvi, "POST GLOBALIZATION AND ITS IMPACT ON VARIOUS SECTOR OF INDIAN ECONOMY," *Journal of Exclusive Management Science*, vol. 10, no. 02, 2021. [Online]. Available: www.jems.net.in.
- [9] A. Banerjee, "GLOBALIZATION IN INDIA: THE KEY ISSUES*," *Society Today*, vol. 1, SEPTEMBER 2012.
- [10] K. Siddiqui, "Globalization, trade liberalization and the issues of economic diversification in the developing countries," *Journal of Business & Economic Policy*, vol. 4, no. 4, pp. 30 - 43, 2017.
- [11] I.-E. Gentimir and R.-A. Gentimir, "International competitiveness, growth and socio-economic development in India," *Procedia Economics and Finance*, vol. 20, pp. 252-258, 2015.
- [12] R. Kumar and P. Vashisht, "Crisis, imbalances, and India," *Working Paper*, 2011. [Online]. Available: <http://dx.doi.org/10.2139/ssrn.1798355>.
- [13] L. Yan-hong, "A historical account of the three economic development models of India," *Journal of Dianxi Science and Technology Normal University*, vol. 25, no. 1, 2016.
- [14] W. Fude, "Economic Transformation and the Prospects of Economic Growth in India," *Indian Ocean Economic Research*, no. 5, pp. 106-128 159, 2015, doi: 10.16717/j.cnki.53-1227/f.2015.05.007.
- [15] S. Kaiyan, *Twenty years of economic reform and development in India: theory, evidence and comparison*. Shanghai ren min chu ban she, 2011.
- [16] N. Kaldor, *Strategic Factors in Economic Development*. Ithaca (N.Y.): New York State school of industrial and labor relations, Cornell University, 1967.
- [17] H. Yongchun, Z. Jianghuai, Y. Yiwen, and Z. Canjia, "'Across Industrialization' Economic Growth Pattern: From the Enlightenment of India Economic Growth Model " *China Population, Resources and Environment*, vol. 22, no. 11, pp. 137 - 143, 2012.

- [18] India's Ministry of Statistics & Programme Implementation <http://mospi.nic.in/data>.
- [19] CIA World Factbook, <http://www.indexmundi.com/india/> 2021.9
- [20] The United Nations Comtrade database <https://comtrade.un.org/labs/data-explorer/> 2021.9
- [21] Bank of India <https://www.rbi.org.in/Scripts/AnnualReportPublications.aspx?Id=1329>.