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<http://bulpolit.enu.kz/>; E-mail: vest_polit@enu.kz

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A.M. Kussainova¹, A.M. Kassymova²

L.N. Gumilyov Eurasian National University, Astana, Kazakhstan

(E-mail: ¹kussainova.am@gmail.com, ²aru_01_05@mail.ru)

Impact of Globalization on Indian Economic Policy Changes

Abstract. The purpose of this article is to underline and to show the positive effects of globalization on economic policy changes in the world on developing states, particularly India. Most of the scientists concern that globalization brought negative effect to the developing countries economy. But we can see some positive patterns in the economic development of India, and we can consider it as an example that economic globalization may bring positive influence on developing states' economies. Nowadays, India is member in major international institutions, including the G20 and BRICS. As a result, the influence of the country's positions on the functioning of the global governance system became one of the significant. India is most commonly viewed in tandem as the emerging power with the potential to change the geopolitical order. Many scholars predict that by 2050 India can become one of the most predominant emerging powers in the world economic and political arena.

Key words: globalization, developing countries, India, trade liberalization policy, industrial development, technological and managerial modernization, economic reform.

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For today, states are trying to achieve improvements in the living standards of their citizens and open up ways towards economic prosperity. And for now, it is evident that globalization made it possible for many countries, given the opportunity to accelerate economic growth and make the standards of living higher. Relying on definition of the globalization, we could say that it is the integration of states' economies into the global processes through investment, foreign aid, spread of technology, migration, trade, capital flows and foreign direct investment [1, p. 224]. The process of globalization is achieved through the factors as economic, political, biological and socio-cultural.

Concluding the things that has happened in the end of 1990's, with the attention to various crises that was deepened by IMF structural adjustments, we could say that liberalization of trade system in states have negative consequences [2, p. 304]. But looking to the situation through other scope, the globalization made possible not only negative changes, but also positive ones. Such as the fast growth rates of the states' economies. It will be proper to put our attention to the case of trade markets liberalization that are making a contribution to the states' economic development at that time when economic growth is driving by state's export.

Another positive feature is that globalization notably decreased the sense of isolation that was feeling in the many states, especially developing ones. The brightest example could be that it has given the wealthiest access to the knowledge. Easy communication links became possible between nations, reducing the time and space factor.

So, the processes involved in globalization have impacted upon the economic policies of states around the world in more than one way. As an example to cite, we attempt to have a look at changes witnessed by economic policy making in India, in the following paragraphs. As a developing state, since its independence Indian government faced a major problem to develop economy and to tackle problems. The rate of growth and economic conditions of state at that time weren't good. In terms of financial and industrial development too, it didn't have proper resources for the development [3, p. 4].

India as a developing state was a slow growing economy till 1991. At that time, the term called “Hindu Rate of Growth” appeared. Which basically means the slow growth and the term was applied by many scholars in description of other states’ slow growing economy. However, through globalizing economic policies, currently India became one of the most rapidly growing economies. The state of India has already become the second largest economy in Asia, making the term “Hindu Rate of Growth” the part of past economic history.

Comparing with the other developing countries, India has experienced the fastest economic growth in post 1991 period. Despite being considered a poor country after its independence in 1947 [3, p. 11], India has bounced back to become one of the most powerful emerging economies in the entire world. How has India been able to achieve this incredible goal? Was the liberalization of trade the only factor which is led India’s economy to the success? What are the benefits of liberalization the world can see from the case of India? Considering that this topic arise such a large amount of questions, it should be noted that we can take a lot from India’s economic policy change. As, after 1991 there were various policies implemented, which were the key to India’s economic success [4, p. 308]. Also we can see that the protectionist policies of the past brought very negative effects to Indian economy. Therefore, we can analyze the factors and different sides of globalization, particularly trade liberalization and openness of the economy, also the influence of protectionist policies in terms of India’s economic policy changes.

India with the status of the poor country since its independence was able to become one of the most powerful emerging economies in our modern world. On that point, we would like to examine some historical steps of economic development, changing policies in India and about the effects that were brought to the Indian economy. We could divide the main five periods in Indian economic policy changes.

The first period occurred when the country got its independence, in 1947. Efforts to design a precise economic policy for India became one of the main aims. The new government of the state introduced the Industrial Policy Resolution in 1948 [5, p. 21]. In this official statement outlined the approach to industrial growth and development. The first Prime-minister of India, Jawaharlal Nehru saw industrialization as the means to achieve overall economic upswing and self-sufficiency.

The first 1948 Industrial Policy Resolution, passing through changes in 1956, served as the basic resolution and foundation in creation of industrial policy statements in 1973, 1977, 1980 and even in 1991. In this Industrial Policy Resolution the concept of “mixed economy” was appeared. According to it, the government had an authority in regulation and planning the development of industries [5, p. 21]. The policy also took a look to the sphere for the private sectors.

The 1948 Industrial Policy Resolution served as the foundation for the Industries Development and Regulation Act (IDRA) of 1951. The IDRA made possible for the Government to play an active role in achieving the goals stated in the 1948 Industrial Policy Resolution. This Act provided with the list of industries that were required the license. There was a provision that stated about the Government intervention into the specific industries’ working sphere, in case if it managed not in proper way [5, p. 22].

The second phase can be shown by accepting the Industrial Policy Resolution of 1956 that stated the government ideas of the day. The aim of this Resolution was speeding up the country’s economic growth rate and industrialization. In those days the capital was in a low supply, the entrepreneurship was not developed enough [5, p. 22]. The Government decided to encourage the industries development in private sector, by using such tools as esurient of the financial and adequate physical elaboration. The government voiced a doubt about the private sector’s ability to make a fast economic growth possible by itself. Noting the need for foreign capital in industrialization, the Resolution of 1948 showed a wish for progressive Indianisation of foreign concerns [5, p. 23]. However, the Government was further to provide non-discriminatory treatment for both private and public industries.

Concerning the public sector, the expansion of its role can be noticed. The main thought was that the public sector investments can be the initiators of rapid growth. There was a broad consensus that the objectives of industrial development could be achieved through a centrally planned industrial strategy. Accordingly, a major part of the resources for industrial development passed to the public sector. The State exceeded its intended role of providing public services and each ensuing policy meant an expanded and strengthened role for the State as a promoter, owner and regulator. Often with insufficient results, the state time by time became involved in a broad range of production activities [5, p. 30].

This Resolution of 1956, along with the 1948 Resolution, have played the crucial role in forming the industrial development in India and having impact on the later industrial policy statements.

Talking about above mentioned periods, the early years were marked by a relatively open trade regime in India. The guiding principle, at that time, was economic self-sufficiency as an imperative to maintain political independence [6, p. 2], the share of foreign controlled enterprises in the private corporate sector rose during these periods.

However, things started altering in the middle of 1960s. Strict controls on imports and foreign investment were imposed [6, p. 3]. This period was characterized by control “syndrome”. The government became involved in every aspect of the economy, administering prices and increasingly regulating the labor, foreign exchange and financial markets.

In pursuance of this, an elaborate structure of regulation and controls was set up involving industrial licensing, import controls, price and distribution controls, foreign exchange regulations, and control over induction of foreign capital or technology and FERA approvals [5, p. 31]. The Foreign Exchange Regulation Act (FERA) enacted in 1973 made life more complicated for foreign controlled enterprises [6, p. 3]. The list of core industries, under the licensing policy, was defined in detail. Consumer goods imports were prohibited completely.

Realizing the negative impact of protectionist policy, the state decided to liberalize at least some of the industries. Accordingly, in 1975, twenty-one industries were relicensed, and expansion without limit was permitted beyond licensed capacities. Such expansions in cases of Monopoly Houses and foreign companies were allowed, but subject to the condition that the excess production was either exported or sold in accordance with the direction of the government. Also, 25 per cent excess unauthorized production was regularized [5, p. 27].

Specific features of the fourth period could be distinguished by gradual liberalization of trade policy. At this time the failures of the import substitution strategy had become clear. The gradual liberalization of trade policy began in 1980 with the New Industrial policy. According to which, there was division of imports into 3 categories: banned, restricted, and Open General License (OGL) with the goods in the last category not requiring any license [7, p. 98]. The tariffs on goods in the restricted list increased. Considering rules regarding foreign collaboration for the purposes of technology transfer were relaxed, resulting in increase in foreign collaboration approvals.

In 1988 the prevailing policy regime was modified in favor of a relaxation of controls of the economy. This period was at that time when for the industrial production the regularization of excess capacity and facility of automatic growth were introduced. The failure in those steps made clear for policy-makers that there was a scope to continue these processes on.

This policy and additional things, such as procedural changes, the technological and managerial modernization of the industry were aimed at reducing costs, increasing productivity, improving quality and competitiveness on world arena. The main points were an opening up the Indian domestic market and make it face the global competition. The public sector was freed from some of its frames and was given a bigger size of autonomy for it [5, p. 33].

The fifth phase started in the early 1990s, when India experienced major policy changes in its economic sphere. The new economic reform “Liberalization, Privatization and Globalization” (LPG) had appeared. The main goal was making state’s economic growth rates the fastest one and competitive on international arena. The restrictions on FDI proposed by the Foreign Exchange

Regulation Act were lifted. Nowadays, 100 % foreign equity is allowed to take place on the Indian market. There are some exceptions in certain products and sectors that are subject to a foreign equity cap [7, p. 103].

For Indian Government there were various reasons for changes in its economic policy and for an adoption of LPG model. Among them are economic factors decline, such as growing and large fiscal imbalances. It could be seen from the statistics of World Bank. The gross fiscal deficit in 1991 rose to 12,1 % of GDP. The growing inefficiency in the use of resources, low foreign exchange reserves, high inflation rate in the years of 1990-91 with the 13,87 % indicator. From 1950s to 1980s the low annual growth rate of state's economy stagnated around 3,5 %, while per capita income averaged 1,3% [8]. All of these declining indicators lead Indian government to take actions towards economic prosperity.

Throughout 1990s and first half of 2000s, successive Indian governments continued with the policy of opening up further and inviting more cooperation with the rest of the world. This resulted in fast paced economic growth and betterment in other economic indicators. In these decades a number of policy measures to transform and accelerate economic growth were introduced by Indian Prime Ministers, Narasimha Rao (1991-1996), Atal Bihari Vajpaee (1998-2004), and Manmohan Singh (2004-2014). Among them is the 1991 Economic liberalization of India, Fiscal Responsibility Act of 2003 and Special Economic Zones Act of 2005 [9].

The positive results of adoption economic policy LPG model became and evident in 2007, when India recorded its highest GDP growth rate of 9 %. India became the second fastest growing major economy in the world, next only to China. And in the first half of 2012 the growth rate has slowed significantly [8]. The report which made by OECD states that the average growth rate of 7,5% will double in a decade, and more reforms would speed up the pace [10, p. 19].

Looking to the past, we could note that the state's actions on the world market were very oppressive owing to results of restrictions. According to the statistics of that time it never reached an indicator even on the level of 1% on the global market [10, p. 5]. However, the things changed gradually when India adopted its reform known as LPG model. The results of it were that the state became the second in the world on development and the 7 largest economies.

Through changes and economic reforms, India made itself a clear example of how the under developed state may improve the efficiency of resource, reduce the capital output ratio, increase labor productivity and the inflow of capital, update technology that gives a boost to the average growth rate of the economy. Domestic industry could be the subject towards economic improvements through the entry of foreign competition and the removal of import tariff barriers. The efficiency of sectors such as banking and financial can face betterment through open economic policy, as there will be competition from foreign capital and foreign banks.

At the beginning of this article, we noted that many scholars argue about pros and cons of economic liberalization. Considering pros, India could be one of the brightest examples. As there the indicators that proves such notion. India's share in the world export, which was 0,53 % in 1991, has improved to 1,6 % in 2013. The foreign currency reserves which indicated \$1 billion in June, 1991 rose significantly to \$277,72 billion in October, 2013. The average growth of export showed some betterment indicating more than 20% per annum since 2003. Currently, exports finance nearly 65% of imports, compared to 60% in the 1980's [10, p. 27]. These statistics shows that the liberalization of economic sector brought many benefits to Indian economy. There is no doubt that the number of disadvantages could be also listed. However, looking into the great economic growth, which is evident from the case of India, in our opinion there are more pros comparing to cons.

Comparing some figures before economic liberalization in India, some positive factors and growth are seen. According to World Bank statistical data, the GDP in 1991 was in the amount of 1,1% and in 2016 it showed 7,1%. The FDI in 1991 was 0,02%, in 2016 this figure showed 2%.

GDP per capita showed the following numbers, in 1991 – 300,1 US \$ and in 2016 – 1,709.6 US \$ [8]. We could make a conclusion that after liberalization the GDP increased nearly 6,5 times, FDI

rose 100 times and GDP per capita increased 6 times. In 15 years significant changes in the main Indian economic indicators are seen.

As a model of developing state with its low economic indicator at the beginning, India can be one of the good examples of fast growing economy after trade liberalization policy. It means that only through liberalization of trade and other economic factors, some states are able to achieve great results in their economic development.

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А.М. Қусайнова, А.М. Касымова

Л.Н. Гумилев атындағы Еуразия ұлттық университеті, Астана, Қазақстан

Жаһандандудың Үндістанның экономикалық саясатының өзгеруіне әсері

Аннотация. Бұл мақала Үндістан экономикалық дамуының үлгісі ретінде, жаһандандудың дамушы елдердің экономикалық саясатының өзгерістеріне оң әсерлерін зерттейді. Көптеген ғалымдардың пікірінше, жаһанданду дамушы елдердің экономикаларына теріс әсерін тигізді. Алайда, Үндістанның экономикалық дамуындағы кейбір оң үрдістер айқын көрінеді және оны экономикалық жаһандандудың дамушы елдердің экономикаларына оң әсері ретінде қарастыруға болады. Қазіргі уақытта Үндістан - ірі халықаралық институттардың, соның ішінде «Үлкен 20» және БРИКС-тің мүшесі. Нәтижесінде, жаһандық менеджмент жүйесінің жұмыс істеуі бойынша елдің позициясының әсері маңызды болып табылады. Үндістан геосаяси тәртіпті өзгертуге әлеуеті бар жаңа дамып келе жатқан держава ретінде жиі кездеседі. Көптеген ғалымдар 2050 жылға қарай Үндістан әлемдік экономикалық және саяси аренадағы дамып келе жатқан державалардың бірі бола алады деп болжайды.

Түйін сөздер: жаһанданду, дамушы елдер, Үндістан, сауда-саттықты ырықтандыру саясаты, өнеркәсіптік даму, технологиялық және басқарушылық жаңғырту, экономикалық реформалар.

А.М. Кусаинова, А.М. Касымова

Евразийский национальный университет имени Л.Н. Гумилева, Астана, Казахстан

Влияние глобализации на изменения в экономической политике Индии

Аннотация. Данная статья анализирует положительные эффекты глобализации на изменения экономической политики развивающихся государств, в частности Индии. Большинство ученых считают, что глобализация негативно отразилась на экономике развивающихся стран. Однако, наглядны некоторые положительные закономерности в экономическом развитии Индии, и возможно считать это примером того, что экономическая глобализация может оказать положительное влияние на экономики развивающихся государств. В настоящее время Индия является членом крупнейших международных институтов, включая «Большую 20-ку» и БРИКС. В результате влияние позиций страны на функционирование глобальной системы управления стало одним из значимых. Индия чаще всего рассматривается как новая развивающаяся держава с потенциалом изменить геополитический порядок. Многие ученые прогнозируют, что к 2050 году Индия может стать одной из наиболее преобладающих развивающихся держав на мировой экономической и политической арене.

Ключевые слова: глобализация, развивающиеся страны, Индия, политика либерализации торговли, промышленное развитие, технологическая и управленческая модернизация, экономические реформы.

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Сведения об авторах:

Кусаинова А.М. – PhD докторы, Л. Н. Гумилев атындағы Еуразия ұлттық университетінің халықаралық қатынастар кафедрасының доцентті, Сатпаев көш. 2, Астана, Қазақстан.

Касымова А.М. – Л.Н. Гумилев атындағы Еуразия ұлттық университетінің «халықаралық қатынастар» мамандығының 4 курс студентті, Сатпаев көш. 2, Астана, Қазақстан.

Kussainova A.M. – Ph.D., Associate Professor of International Relations Department, L.N. Gumilyov Eurasian National University, Satpayev str. 2, Astana, Kazakhstan.

Kassymova A.M. – 4th course student of “International Relations” specialty, L.N. Gumilyov Eurasian National University, Satpayev str. 2, Astana, Kazakhstan.