UDGAM VIGYATI (The Origin of Knowledge)

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Title of the Paper : **Wallop of Liberalization & Globalization : Burgeoning growth of Foreign Trade in India**

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ABSTRACT

The era of Globalization in India commenced in1991, when the Indian economy was facing a financial crisis, the Indian Government decided to introduce economic reforms. The package of reforms included: liberalization of industrial policy and inviting foreign investment through privatization of industries; liberalization of Export and Import Policy; devaluation of the Rupee; reform of the banking sector; withdrawal of restrictions and government interference in investment. After this the country witnessed a spurt in exports barring the years 1997, 2001-02 and 2008.

The term globalization means international integration. It means opening up of world trade, development of advanced means of communication, internationalisation of financial markets, growing importance of MNC's, population migrations and more generally increased mobility of persons, goods, capital, data and ideas.It is a process through which the diverse world is unified into a single society. The wave of globalization hitted India at the end of the last century and still the country is flowing with the current of global changes.

Among several features of globalization, one relates to increasing interactions among nations and removal of barriers to facilitate movement of goods, capital, labour and technology. It is a

process that renders various activities and aspiration worldwide in scope or application. As a part of this process of increasing integration of the world, many countries have adopted economic reforms and liberalization in their own ways. The rapid integration of Brazil, Russia, India, China and South Africa into the world market was an important element of globalization. Trade is the primary manifestation of this increasing integration and changing organizational structure of the global economy which has been much more extensive than in the past involving more countries & regions. In the similar way, it is also much more intensive as foreign trade became a key component of most countries economic activities. Over the years emerging economies like China, India, Brazil, Mexico, Russia and South Africa have made their presence felt in the global market and have come forth as new key drivers of global growth. Among other emerging countries, India is one of the fastest growing economies. India with its distinct development strategy has the potential to influence economic activities of the global economy in the years to come. My research paper lay emphasis on the imapct of globalisation in the Indian economy in the form of increased foreign trade.

KEYWORD : Globalisation, Liberalization, Trade, Emerging economies, Foreign trade

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INTRODUCTION

"Trade is not an end in itself, but a means to economic growth and national development. The primary purpose is not the mere earning of foreign exchange but the stimulation of greater economic activity". The economy of ancient India had a strong cross border trade and commerce relation with China and they mainly traded food grains, spices, cottons, gold, silver, and metals. Further, a more organized form of trans-world trade has been in force from the mid of 14th century and it started as a means to explore new business destination and opportunities. The 18th century marks the merging of the modernity with globalization and it also marks the foundation for the creation of international trade law. The modern day Indian economy (1900) had taken cue from the history of globalization and structured its foreign trade policy accordingly. The liberalized economic policy adapted and implemented by the Government of India, finds its root back to the rich history of globalization. Now Globalization is accepted as the New Mantra for economic success of economies over the world where India and China have proved this to some extent.

Globalization describes the ongoing global trend toward the free flow of trade and investment across borders and the resulting integration of the international economy. Because it expands economic freedom and spurs competition, globalization is believed to raise the productivity and living standards of people in countries that open themselves to the *global marketplace.* The most significant changes brought about by the process of globalization are the increasing interdependence and integration at a worldwide scale. Globalization has brought about great revolutionary changes worldwide. A gain from globalization in the context of Trade in Goods and Services is that international trade leads to allocation of resources that is consistent with comparative advantage. This results in specialization which enhances productivity. It is accepted that international trade, in general, is beneficial and that restrictive trade practices impede growth. That is the reason why many of the emerging economies, which originally depended on a growth model of import substitution, have moved over to a policy of outward orientation. However, in relation to trade in goods and services, there is one major concern. Emerging economies will reap the benefits of international trade only if they reach the full potential of their resource availability. This will probably require time. That is why international trade agreements make exceptions by allowing longer time to developing economies in terms of reduction in tariff and non-tariff barriers. “Special and differentiated treatment”, as it is very often called has become an accepted principle.[1]

MEANING OF GLOBALIZATION

Globalization” refers to the growing interdependence of countries resulting from the increasing integration of trade, finance, people, and ideas in one global marketplace. International trade and cross-border investment flows are the main elements of this integration.[2] Globalization started after World War II but has accelerated considerably since the mid-1980s, driven by two main factors. One involves technological advances that have lowered the costs of transportation, communication, and computation to the extent that it is often economically feasible for a firm to locate different phases of production in different countries.

The other factor has to do with the increasing liberalization of trade and capital markets: more and more governments are refusing to protect their economies from foreign competition or influence through import tariffs and nontariff barriers such as import quotas, export restraints, and legal prohibitions. A number of international institutions established in the wake of World War II—including the World Bank, International Monetary Fund (IMF), and General Agreement on Tariffs and Trade (GATT), succeeded in 1995 by the World Trade Organization (WTO)—have played an important role in promoting free trade in place of protectionism."

In nutshell it means to open the Trade and Economy for the international players. In other words, every manufacturer or producer of goods can compete for sale of their products without restrictions or without any imposed control. For example, think of a small village market or meal where all are free to come and sell their products at their desired price, irrespective of places from where they come. There are no restrictions on control on their products or the prices. This is the globalised trade. Any country can participate to set up, acquire, merge industries, invest in equity and shares, sell their products and services in India.

Therefore, globalisation should not be considered in isolation, but should be considered in totality with liberalisation of the industrial policy towards lifting of trade control and restrictions, influence of trade block and simultaneous privatisation.Global market treats the world as a single market. With the advent of information technology and its strategic application, the world is focussed as a global village and all traders are therefore globalised.

DEFINITION OF GLOBALIZATION

The evidence of globalization can be seen everywhere: in the home, in the workplace, in the discount stores, in the newspapers and business journals, in the flow of monthly government statistics, and in academic literature. The backlash was on display in Seattle in November 1999, when thousands of protesters took to the streets to demonstrate against the ministerial meeting of the World Trade Organization (WTO).

A short definition of globalization is "the growing liberalization of international trade and investment, and the resulting increase in the integration of national economies." Economist David Henderson of the Melbourne Business School expands the definition into five related but distinct parts:

* the increasing tendency for firms to think, plan, operate, and invest for the future with reference to markets and opportunities across the world as a whole;

* the growing ease and cheapness of international communications, with the Internet the leading aspect;

* the trend toward closer international economic integration, resulting in the diminished importance of political boundaries. This trend is fueled partly by the first two trends, but even more powerfully by official policies aimed at trade and investment liberalization;

* the apparently growing significance of issues and problems extending beyond national boundaries and the resulting impetus to deal with them through some form of internationally concerted action; and

* the tendency toward uniformity (or "harmonization"), by which norms, standards, rules, and practices are defined and enforced with respect to regions, or the world as a whole, rather than within the bounds of nation-states.

Globalization can be seen most clearly in the quickening pace and scope of international commerce. Global exports as a share of global domestic product have increased from 14 percent in 1970 to 24 percent today, and the growth of trade has consistently outpaced growth in global output. In the United States, the ratio of two-way trade and investment income flows as a share of GDP has roughly tripled since the 1960s. Annual global flows of foreign direct investment surged to a record $ 400 billion in 1997, with 37 percent directed to less developed countries (LDCs), up from 7 percent in 1990. In the 1970s, daily foreign exchange transactions averaged $ 10 billion to $ 20 billion; today, the average daily activity has reached more than $ 1.5 trillion.

GATEWAYS OF INDIA'S GLOBALIZATION

Globalization is hardly a new force affecting India. To think so is to ignore a diverse and pluralistic long-standing civilization that was shaped by a long list of "invading" (globalizing) cultures that became what we now know as India. India, knowing its past as a globalizer, sees itself as one of the great nations of the world.

Before 1990s India followed a patch of restricted trade. Such restrictions were that certain products would not be allowed to be imported as they were manufactured in India. For example, General Engineering goods, Food items, toiletries, Agricultural products etc. were in the banned list of import.

Some other kinds of products which were produced in restricted quantity in the country or are expensive and categorised as luxuries were subjected to heavy import duty to make them costlier in order to dissuade flow of foreign exchange and give protection to local producers. For example, VCR, Music sets, Air-conditioners, Computers etc., these items were subject to 150% import duty.

But today, India has yet to build on the onetime greatness of its civilization to earn international influence and respect. India sees itself as equally important as Russia, China and the U.S., believing it has much to offer the rest of the world. The process of globalization has been an integral part of the recent economic progress made by India. Globalization has played a major role in export-led growth, leading to the enlargement of the job market in India. There was a debate that India was already well on the way to globalisation, which was shaking up our economy. A most common measure of globalisation is openness to trade and a country's participation in trade. By this measure, the extent of India's globalisation is insignificant – it is one of the lowest in the world. India's share in world trade is a meagre 0.7 per cent or so, with a population of more than 1,000 million will occupy a smaller area than Singapore with a population of only 3 million. The changes that have occurred in the patterns of trade and capital flows in recent years are to India's advantage. Today, in terms of the potential benefits of globalisation, India is in a very different position than would have been the case 50 or even 20 years ago.

In the 1990s due to change in world economic order and due to heavy pressures from rich countries like USA, Japan, European countries dominating the WTO (World Trade Organisation having 135 members, established in 1995) and IMF (International Monetary Fund) and World Bank engaged in development financing activities, the developing and the poor countries all over the world were forced to open their trade and market and allow foreigners to share their major chunk of a business. Thus, India first started the process of globalisation and liberalisation in 1991 under the Union Finance Minister, Shri Manmohan Singh.The first 5 years in globalisation did not yield appreciable results. The coming of Multinational cold drinks manufacturers like Coke, Pepsi, and others like Mc. Donald, KFC, Boomer Chewing gums, Uncle Chips, Cornflakes only dominated the show. Due to further liberalization of trade and the privatization, the late 1990s showed the effect to globalisation by the coming of giant car manufacturers like Daewoo Motors, Ford, Honda, Hyundai which resulted in availability of varieties of cars and reduction of domestic car prices.[3] Electronic giants like IBM and world leaders in the telecommunication sector like Ericsson, Nokia, Aiwa etc., delivered wide range of quality products at affordable prices and brought a major revolution in Indian electronic industries. In the power sector Enron, AES-CESCO are dominating the show.[4] The resultant effects were tremendous boost to industrial sector economy. The price level came down due to cut throat competition and Indian consumers are so far happy. In May 2001, the Indian Government also opened the defence sector towards globalisation and privatisation.

IMPACT OF GLOBALIZATION IN WORLD ECONOMY

Globalization has resulted in greater interconnectedness among markets around the world and increased communication and awareness of business opportunities in far corners of the globe. More investors can access new investment opportunities and study new markets at a greater distance than before. Potential risks and profit opportunities are within easier reach thanks to improved communications technology. Countries with positive relations between them are able to increasingly unify their economies through increased investment and trade. Products and services previously available within one country are made more readily available to new markets, resulting directly in improved economic opportunities for workers in those economies and leading to improved household incomes. For investors, these opportunities present a wider range of investment options and new ways to profit. Investment in global markets is possible for the investing public through stock purchasing, as most brokerage firms are able to access international stock markets and provide their clients with the opportunity to purchase shares in companies around the world.[5]

As a result, most businesses try to stay competitive with their counterparts in other parts of the world, broadening their competitive horizons past their local areas and home countries. Maintaining competitiveness often requires sourcing materials and outsourcing labor from other countries. Competitive companies have increasingly turned to global markets as a source not only of new customers but also of production locations and partners for new ventures. Globalization has facilitated this and made the transition to global markets easier. Over time, these practices result in increased cultural similarities between countries and increasingly connected economies that have more mutual interests and challenges.

Globalization and international investment are tied together and lead into one another as companies act internationally by increasing their international investment out of mutual interest and the need to stay internationally competitive. Companies benefit from pricing differences, or arbitrage, in different markets for labor and supplies. Globalization compels connected economies to continue to invest in each other to protect their economic health and acquire new profits. International investments have increased as a direct result of globalization and continue to do so. This is pulling more economies into globalization, further increasing international investment as this happens.When countries seek collectively to pursue the opportunities provided by globalization, the demands of the new economic activity cause social change that develops these countries and prepares them to better pursue industrial activity.

The society becomes a developed nation as its workforce begins to attract the investment activity of enough companies to cause the social and economic change necessary to produce a modern industrialized economy. This process is a result of the international investment that characterizes globalization. The competitive nature of globalization, in other words, ultimately has a social and economic impact that transforms economies in pursuit of investment and greater economic activity. This knits economies into each other and results in increased international investment.

BENEFITS OF INTERNATIONAL TRADE AND INVESTMENT

International trade has flourished over the years due to the many benefits it has offered to different countries across the globe. International trade is the exchange of services, goods, and capital among various countries and regions, without much hindrance. The international trade accounts for a good part of a country's gross domestic product. It is also one of important sources of revenue for a developing country. With the help of modern production techniques, highly advanced transportation systems, transnational corporations, outsourcing of manufacturing and services, and rapid industrialization, the international trade system is growing and spreading very fast.

International trade among different countries is not a new a concept. History suggests that in the past there where several instances of international trade. Traders used to transport silk, and spices through the Silk Route in the 14th and 15th century. In the 1700s fast sailing ships called Clippers, with special crew, used to transport tea from China, and spices from Dutch East Indies to different European countries. The economic, political, and social significance of international trade has been theorized in the Industrial Age. The rise in the international trade is essential for the growth of globalization. The restrictions to international trade would limit the nations to the services and goods produced within its territories, and they would lose out on the valuable revenue from the global trade. The benefits of international trade have been the major drivers of growth for the last half of the 20th century. Nations with strong international trade have become prosperous and have the power to control the world economy. [6]

The global trade can become one of the major contributors to the reduction of poverty. David Ricardo, a classical economist, in his principle of comparative advantage explained how trade can benefit all parties such as individuals, companies, and countries involved in it, as long as goods are produced with different relative costs. The net benefits from such activity are called gains from trade. This is one of the most important concepts in international trade. Adam Smith, another classical economist, with the use of principle of absolute advantage demonstrated that a country could benefit from trade, if it has the least absolute cost of production of goods, i.e. per unit input yields a higher volume of output. According to the principle of comparative advantage, benefits of trade are dependent on the opportunity cost of production. The opportunity cost of production of goods is the amount of production of one good reduced, to increase production of another good by one unit. A country with no absolute advantage in any product, i.e. the country is not the most competent producer for any goods, can still be benefited from focusing on export of goods for which it has the least opportunity cost of production. Benefits of International Trade can be reaped further, if there is a considerable decrease in barriers to trade in agriculture and manufactured goods.[7]

Some important benefits of International Trade are:

- Enhances the domestic competitiveness
- Takes advantage of international trade technology
- Increase sales and profits
- Expands sales potential of the existing products
- Maintains cost competitiveness in the domestic market
- Enhances potential for expansion of business
- Gains a global market share
- Reduces dependence on existing markets
- Stabilizes seasonal market fluctuations

IMPACT OF GLOBALIZATION IN INDIA

The wave of globalization appeared on India's shores only in 1991, much after China's and some other Southeast Asian countries such as Malaysia, Singapore and Hong Kong. Moreover the intensity of opening country's borders is much higher in other countries than in India where democratic political forces delay decision making significantly. Globalization in India has allowed companies to increase their base of operations, expand their workforce with minimal investments, and provide new services to a broad range of consumers.

The process of globalization has been an integral part of the recent economic progress made by India. It has played a major role in export-led growth, leading to the enlargement of the job market in India. It has been advantageous for companies that have ventured in the Indian market. By simply increasing their base of operations, expanding their workforce with minimal investments, and providing services to a broad range of consumers, large companies entering the Indian market have opened up many profitable opportunities. Indian companies are rapidly gaining confidence and are themselves now major players in globalization through international expansion. From steel to Bollywood, from cars to IT, Indian companies are setting themselves up as powerhouses of tomorrow's global economy. [8]

A most common measure of globalization is openness to trade and a country's participation in trade. Until the liberalization of 1991, India was largely and intentionally isolated from the world markets, to protect its fledging economy and to achieve self-reliance. Foreign trade was subject to import tariffs, export taxes and quantitative restrictions, while foreign direct investment1 was restricted by upper-limit equity participation, restrictions on technology transfer, export obligations and government approvals. The changes that have occurred in the patterns of trade and capital flows in recent years are to India's advantage. Today, in terms of the potential benefits of globalization, India is in a very different position than the case 50 or even 20 years ago. Its share in world trade accounts to 1.5% as of 2007 which was a meager of 0.7% in 2001 while its GDP2 growth rate amounts to 7.3% for 2008. India is now aggressively pushing for a more liberal global trade regime, especially in services. It has assumed a leadership role among developing nations in global trade negotiations. Although India has steadily opened up its economy, its tariffs continue to be high when compared with other countries, and its investment norms are still restrictive. This leads some to see India as a ‘rapid globalizer’ while others still see it as a ‘highly protectionist’ economy.

GROWTH OF FOREIGN TRADE IN INDIA

Over the years, India's foreign trade has come to occupy a pivotal position in the economic scenario and prosperity of the country. India exports a huge number of products and imports equally a good number of required products. Major exporting products of India include raw cotton, agricultural products, sports goods, ores, minerals, chemicals, engineering goods, electronic goods, project goods and handicrafts to countries such as USA, UK, UAE, Hong Kong, China, Germany, Singapore, Belgium, Japan etc. India's major importing products include cereals, fertilizers, sugar, edible oil,crude rubber, newsprint, iron and steel, petroleum crude, pharmaceutical products, gold, silver, cotton, fabrics, coal, tea, silk and computer software from countries such as USA, UK, Germany, China, Belgium, Japan, Switzerland etc.

CONCLUSION

Globalization offers hope to the world’s poorest. Just as more open trade tends to promote economic growth, growth in turn leads to poverty reduction. A World Bank study found that periods of sustained economic growth are almost always accompanied by reductions in poverty. Specifically, the study found that poverty fell in 77 of the 88 decade- long periods of growth covered by the survey.

The greatest reductions in poverty in the last twenty years have occurred in nations that have moved decisively toward openness and domestic liberalization. The most spectacular gains have been realized in East Asia. Between 1993 and ‘96, the number of people living in absolute poverty—what the World Bank defines as less than $ 1 per day— declined in the region from

432 million to 267 million. In China alone, the number of poor people so defined fell by 150 million between 1990 and '97. The 1997—98 financial crisis that began in East Asia brought a temporary halt to this progress, but poverty rates in the hardest-hit countries—Korea, Thailand, and Indonesia—have begun to decline back toward their précis's levels. Globally, the number of people living in absolute poverty has declined in the 1990s to an estimated 1.2 billion in 1998.

New York Times columnist Thomas Freidman, in The Lexus and the Olive, his 1999 book on globalization, describes these growth policies as "the Golden Straitjacket."[9] The increasingly manifest rewards of engagement encourage nations to unilaterally restrict the scope of government action. As Friedman explains:

"To fit into the Golden Straitjacket a country must either adopt, or be seen as moving toward, the following golden rules: making the private sector the primary engine of its economic growth, maintaining a low rate of inflation and price stability, shrinking the size of its state bureaucracy, maintaining as close to a balanced budget as possible, if not a surplus; eliminating and lowering tariffs on imported goods, removing restrictions on foreign investment, getting rid of quotas and domestic monopolies, increasing exports, privatizing state-owned industries and utilities, deregulating capital markets, making its currency convertible, opening its industries, stock, and bond markets to direct foreign ownership and investment, deregulating its economy to promote as much domestic competition as possible, eliminating government corruption, subsidies and kickbacks as much as possible, opening its banking and telecommunications systems to private ownership and competition, and allowing its citizens to choose from an array of competing pension options and foreign-run pension and mutual funds. While globalization may confront government officials with more difficult choices, the result for their citizens is greater individual freedom." In this sense, globalization acts as a check on governmental power, making it more difficult for governments to abuse the freedom and property of their citizens.

India being an open economy not only its exports are raising but imports has also risen reflecting her potentials to emerge as a super power. Even a limited attempt of globalization has benefited Indian economy in the best possible way. India should overcome the constraints of trade such as electricity shortages and inadequate transportation infrastructure and utilize trade as an effective engine for accelerating the pace of inclusive development in the country. To become a major player in world trade it has to reduce import restrictions which are required to stimulate our economy. It is necessary to mention that International trade alone cannot bring about economic growth and prosperity in any country. Apart from flexible trade policies there are also other factors like favorable macroeconomic scenario and political stability that need to be there to complement the gains from trade. India can achieve a 5% share of world trade in both goods and services by the year 2020 which is a fourfold increase in our percentage share in the next 11 years provided the policy measures and economic infrastructure are accommodative enough to cope with the changes in social and financial scenario that result from it. If so, India of 2025 is sure to occupy a very different place, and a much more dominant force in the world economy, than was the case twenty five years ago or at the beginning of the new millennium.

END NOTES

1 International Journal of Advanced Research in Management and Social Sciences ISSN: 2278-6236 Vol. 1 | No. 3 | September 2012 www.garph.co.uk IJARMSS | 290

2 http://www.economicsdiscussion.net/globalization/india-globalization/globalisation-and-india-economy/10945

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5 http:/www.investopedia.com/ask/answers/022615/what-effect-has-globalization-had-international-investments.asp

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7 Supra note 1at 292

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