



Globalization's Opportunities and Challenges for India in the 21st Century

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ABSTRACT

During the second half of the 20th century, the world transformed itself into a unified global economy in which specialization combined with free trade promised to spread prosperity among all. Having attempted rather unsuccessfully to build a socialistic democracy for over four decades, India joined the free trade movement in the 1990s hesitantly, cautiously, and more out of economic necessity than choice. Since then, India has experienced an unprecedented boom both in the domestic economy as well as in foreign trade and investment. This paper analyzes the reasons why India has become such an attractive destination for trade and investment for the developed world and discusses strategies for India to deal with the challenges that come with its changed fortunes.

INTRODUCTION

During the second half of the 20th century, the world's political and economic landscape changed in many fundamental ways. Some of the important changes can be listed as below:

1. UN Monetary and Financial Conference (1944) Bretton Woods, NH, resulted into the creation of 3 important global trade institutions namely,
 - IBRD (International Bank for Reconstruction AND Development) that evolved into the World Bank Group
 - IMF (International Monetary Fund) – for stable currencies
 - ITO (International Trade Organization) – and idea that did not become a reality; but resulted into 8 rounds of GATTs (General Agreements for Tariffs and Trade), and finally evolved into the WTO 1995 (World Trade Organization)
(Bretton Woods Conference 1944)
2. Acceptance of Free Market System by Countries of the World
3. Formation of Regional Cooperation and Integration Groups
4. Rapid advances in information technology and resultant low cost instant communications across the world



5. Rapid development of transportation and communication infrastructure and the resultant easy, rapid, reliable, and relatively inexpensive transportation across the world

6. The Silent Education Revolution

During the 20th century, liberal financial aid and practical training of foreign students in the U.S. and Europe, and heavy government investments in science and technology resulted in low-wage developing countries like China, India, and Russia undergoing a silent education revolution and creating large numbers of educated and technically skilled graduates even when their job prospects in local economies were far from bright. These large pools of skilled workforce offered the manufacturers in high wage developed countries ideal destinations to instantly transfer their manufacturing operations, and produce their products at the lowest possible cost. (Zakaria 2008).

These changes effectively broke down old boundaries and barriers that compartmentalized the world into continents, regions, countries, states, nations, and other economic and political blocs, and in some sense unified the world. By the end of the 20th century, free trade had become the norm in the new globalized world economy, which, when combined with specialization, promised to spread prosperity among all. . (Adam Smith 1776; David Ricardo 1817).

This paper traces India's political and economic evolution into a wholehearted participant in the world economy by the end of the 20th century. Further, it discusses India's opportunities and challenges in the new world in the 21st century, and the strategies it must adopt to build itself a prosperous future in the long term.

INDIA'S EVOLUTION TO JOIN THE FREE TRADE MOVEMENT

EARLY DECADES OF INDEPENDENCE 1947-1980

In 1947, India gained its independence from the British rule and began its journey as a nation driven by the ideals of becoming a model socialistic democracy. For the next four decades, India pursued the goal of becoming a nation self-sufficient in all important spheres of its economy. The socialistic ideals espoused by its political leadership, as



well as the lack of domestic capital needed for major investments, made it necessary for the central government to play an important and direct role in developing its infrastructure and core industries critical to its long-term growth.

These years were marked by government controlling all important aspects of the country's economic life. In addition, the government took several measures necessary to provide sheltered markets for domestic industry to take roots and grow on the one hand, and to provide essential goods and services to the population at fair prices on the other. It used tariff and nontariff trade barriers to control imports, restricted foreign as well as domestic competition through licensing of all medium and large scale manufacturing industries, imposed price controls, nationalized banks, regulated foreign and domestic investment, and imposed very tight controls on use of foreign exchange for trade, travel, and tourism.

However, as is typical of all protectionist measures, these policies became self-perpetuating and self-defeating at the same time. They took away competition, the major driving force compelling the industry to improve quality or reduce costs. The industries loved the sheltered markets that allowed them to continue selling expensive yet substandard products, and earn a virtually guaranteed return on their investments. Moreover, since these returns at home were far higher than those possible in international markets, they had no incentive to export their products. They worked with the politicians and made sure that the protectionist policies stayed in force as long as possible. Indian consumers bore the heavy costs of these policies: they had to pay high prices for a limited selection of substandard quality products year after year, and stand in long waiting lines for the limited supply of life's essentials.

On the international front, by founding the nonalignment movement, and pursuing a proud, independent foreign policy grounded in high moral standards, Indian politicians tried to present the country as a model democracy and a positive force in the world. However, its continued problems of poverty, income inequality, and very high population growth rates virtually wiped out any visible impact of its anemic economic growth, and



overshadowed and dampened any impact it had as a moral force in world politics. And its masses continued to live in virtually stagnant economic conditions, declining living standards, and very little hope for the future through the 1970s.

INTERNAL LIBERALIZATION OF THE 1980s

The first major shift in this policy came in the 1980s when the government began a policy of internal liberalization (Reddy 2006). The licensing controls on domestic manufacturing were liberalized to encourage internal/domestic competition so as to increase productivity, reduce costs, and potentially get the marketers in shape to face competition in international markets. These policies were responsible in raising India's GDP (Gross Domestic Product) growth rate to 6% per annum through the decade.

However, soon it was apparent that such a growth rate was not sustainable in the long run due to inadequate incentive in the economy. Finally, things came to a head when in 1991, India experienced payments crisis due to the high debt, growing demand and high prices of oil imports. In response, India took major steps toward external liberalization by gradually dismantling age old barriers to foreign trade and investment.

EXTERNAL LIBERALIZATION OF THE 1990s

Thus the 1990s were marked by gradual liberalization on two fronts. Internally, the government opened more and more areas of economic activity, hitherto reserved for public sector, to the competition of private sector. Second, externally, the government gradually relaxed restrictions on foreign direct investment and imports. As a result, India experienced an unprecedented economic boom fueled by the outsourcing of manufacturing and information and communication technology services from high-wage economies of the US, the Western Europe and Japan. India was not only able to sustain the 6% growth rates in GDP through the 1990s but even slightly surpass it.

One benefit of the gradual pace of the liberalization was that it minimized its negative impact by giving the domestic public and private sector industries time to adjust to the new realities, and preparing them to face the intense global competition in domestic and



international markets in the years to come. By the time the new millennium arrived, the domestic public sector and private sector institutions had the skills and the mental makeup necessary to sustain growth rates as high as 8 percent per year (Reddy 2006).

Exhibit 1 presents chronology of progress of globalization in the world vs India's political and economic evolution into a committed participant in the world economy.

Exhibit 2 presents highlights of Indian economy as of 2017. It can be seen from the exhibit that all sectors of Indian economy have shown strong growth rates in the recent past and strong forecasts for the future. Foreign direct investment too recorded unprecedented growth rate and the pace was expected to continue.

INDIA BECOMES AN ATTRACTIVE DESTINATION FOR THE WORLD TO TRADE AND INVEST

These changes in Indian economy were no less dramatic than those after a political revolution. Consequently, India today has become a very attractive destination for the developed countries of the world to trade with and invest in. Companies from developed countries are outsourcing their high-tech manufacturing operations, moving their cutting-edge research laboratories, and setting up subsidiaries to handle important back-office functions in India. Using the internet, India is now able to provide skilled doctors to carry out medical diagnostics for patients in developed countries.

These developments have also changed the world's perception of India in many ways. In the past, India's name used to appear in the western newspapers only as an example of dire poverty, uncontrolled population growth, rampant corruption, and a people needing world's sympathy, help, and handouts. In its place, today, the country is mentioned as a reservoir of intelligent minds, and of skilled and hardworking people who can compete with and match the best in the world given necessary infrastructure and resources.

ANALYZING INDIA'S SUCCESSES & DEVELOPING FUTURE STRATEGIES



Several important factors have resulted in India being rediscovered by the developed world as an attractive destination for trade and investment.

1. Indian Government's Rejection of self-sufficiency Goal, and its firm, long term commitment to the free market system

India was one of the last major economies to join the global economy. Having experienced a lack of success in building prosperous socialistic democracy for several decades, India gradually went through the process of internal and external economic, trade, and investment liberalization during the 1980s and 1990s, and joined the free trade movement hesitantly, cautiously, and more out of economic necessity than choice. However, the effect of the new policies on the economy have been so impressive that they are now supported by a broad spectrum of population and political parties, and appear to be beyond the ability of any single political party to reverse. As a result, the world looks at India as a secular democracy that has now made a long term commitment to free market policies. Suddenly, an untapped market with a great potential is now accessible to the world.

2. India's Slow and Cautious Pace in joining the World Economy

India's cautious approach in adopting the free market system may have been a blessing in disguise since it has insulated India from the extreme effects of financial crises experienced by other developed and free economies of the world in the 1990s and 2000s.

However, given India's socialistic history, its cautious approach could be perceived by some in the world as one lacking a wholehearted commitment to the free market system. Therefore, it is necessary for India to assure the world that its free market reforms are very serious, genuine, and irreversible.

3. English as a Unifying Common Language of Communication

Today, English is widely studied, understood, and spoken as a unifying common language of communication across India alongside with Hindi, the national language.



Many top quality institutions of the higher learning also have continued to use English as a medium of instruction providing Indian students with access to the world's latest knowledge resources. As a result, a large segment of India's educated population today has an up-to-date knowledge of English language and of developments in the world. Since English has also become a most popular language of communication in business around the world, its English proficiency has turned out to be India's great strength in the global economy.

It is important for the country to recognize that India's English proficiency is a very valuable asset that makes it very attractive to the world, and it must be positively cultivated and nurtured. However, at the same time, India must recognize that other countries including China are making all out efforts to educate their populations in English language, and over time, India's advantage in this dimension is most likely to diminish over time.

4. India's Impressive Economic Performance

Since liberalization, India's economy has achieved spectacular growth rates never before considered possible in stark contrast with the early decades of anemic growth.

The present high growth rates of Indian economy have turned the unsatisfied needs into real demand and made India an attractive market for the developed countries along with China, and Mexico. While this is a very good news for the Indian economy, it is the experience of many other countries that such high growth rates are not always sustainable in the long run. Therefore, India needs to use its rapidly growing purchasing power to not only for consumption, but also for investment that will give rich dividends in the future when the growth rates decline.

5. India's Highly Educated, Technically Competent, and Inexpensive Workforce

With its heavy investments in education, India today has achieved literacy rates close to 70% of its general population. It also has created technical and management educational institutions that can easily match the best in the world, and are and are so



recognized internationally. These accomplishments make India a very attractive destination for the developed nations to move their manufacturing operations to.

There are two aspects of this phenomenon that are very important: India's workforce is very inexpensive, as well as highly educated and skilled, both of which contribute to its high productivity.

First, being a supplier of very inexpensive workforce is not a distinction a country should aspire to have in the long run. After all, if India wants its people to prosper, it cannot expect to remain forever the supplier of the cheapest workforce to the world. However, India can and must aspire to remain the most productive, educated, and skilled workforce to the world. In other words, as the wages go up, so must increase the productivity more than proportionately. If it fails to do that, it risks losing its markets to other even lower wage countries.

However being a supplier of a highly educated and skilled workforce is a distinction India should do its utmost to preserve. For example, India can aim at becoming the world's favorite supplier of services in the fields of information technology, medicine, and education.

India is already a dominant supplier of IT services to the world. This has also begun to expand to the field of medical diagnosis. However, India can actually provide ultramodern, yet inexpensive, treatment to international patients. In the field of education, Indian engineers, professors, and research scientists, already working in educational institutions and research laboratories in many advanced countries, can provide the country with enough credibility to actually set up educational and research facilities in India, primarily to serve foreign customers. Going beyond being just a supplier of skill for hire to manufacturers and marketers from the West, India can and must develop its own products and services and, in time, become a leading marketer of such services in the world.





CONCLUSION

It is said that the wise analyze their successes as seriously as their failures if only to ensure that their successes are because of, and not in spite of, them. While it is a happy time for India to rejoice its turning fortunes, it is also important to analyze the reasons behind them so that the country can nurture its strengths, work to overcome its weaknesses, and insure that the foundations of its prosperity are strong and long-lasting.



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EXHIBIT 1
GLOBALIZATION'S PROGRESS IN THE WORLD v IN INDIA
 Source: CIA World Fact Book

WORLD		INDIA	
1914-1918	WWI		
1930	Tariff Act of 1930 = Smoot-Hawley Tariff Act		
1929-1932	US Europe Trade War		
1929-1939-1940s	Great Depression = World-wide economic downturn 1929-1939 in US and 1940s in different parts of the world		
1939-1945	WWII		
1944	UN Monetary and Economic Conference, Bretton Woods, NH, US conference		
1945	World Bank, IBRD		
1947	IMF Beginning of GATTs	1947	India gains independence from UK. Pursues socialistic democracy policies
1947-1993	8 GATTs		
1960	EFTA		
		1980s	India launches domestic liberalization policies and attains 6% GDP growth rate for the decade. Not sustainable
		1991	India faces economic crisis due to high debt, high oil prices and need for high oil imports due to domestic demand
1992	ECM	1990s	1990s India launches external liberalization policies to sustain the 6% GDP growth rate through 1990s
1994	EU, NAFTA, MERCOSUR		
1995	WTO		
1999	EMU, WTO Meeting in Seattle, Washington disrupted by protests		
2001	WTO meeting in Doha launched. No progress. Nov 11 China joins WTO	2001	India plays leadership role in presenting the demands of the developing countries at WTO's Doha meeting.
2008		2008	India achieves GDP growth rate of 9% November: Terrorists originating from Pakistan conducted coordinated attacks in Mumbai.
2011		2011	Jan-2011 India assumed a nonpermanent seat in the UN Security Council for 2011-2012 term



EXHIBIT 2
INDIA'S ECONOMIC PERFORMANCE 1980-2016
Source: World Development Report, the World Bank

Indicator Name	1980	1990	2000	2010	2015
POPULATION					
Population, total (million #)	697	871	1,053	1,231	1,311
Population growth (annual %)	2.30	2.07	1.77	1.37	1.21
Labor force, total (million #)		328.6	405.2	470.6	501.6
EXPORTS					
Commercial service exports in current US\$ (million \$)	2,861	4,610	16,031	116,583	155,717
Merchandise exports in current US\$ (million \$)	8,586	17,969	42,379	226,351	267,147
TOTAL GDP					
GDP, PPP in current international \$ (billion \$)		998	2,105	5,312	8,003
GDP growth (annual %)	6.7	5.5	3.8	10.3	7.9
GDP in current US\$ (billion \$)	190	327	477	1,657	2,089
PER CAPITA GDP					
GDP per capita, PPP (current international \$)		1,146	1,998	4,315	6,105
GDP per capita growth (annual %)	4.3	3.4	2.0	8.8	6.6
GDP per capita (current US\$)	272	375	452	1,346	1,593
COMMUNICATIONS					
Fixed telephone subscriptions (million #)	2	5	32	35	26
Mobile cellular subscriptions (per 100 people)	0	0	0	62	78
Mobile cellular subscriptions (million #)	0	0	4	752	1,001