Impact of Economic Liberalisation

Pre Liberalization & Globalization

From independence till the later part of the 1980s, India economic approach was mainly based on government control and a centrally operated market. The country did not have a proper consumer oriented market and foreign investments were also not coming in. This did not do anything good to the economic condition of the country and as such the standard of living did not go up. In the 1980s, stress has given on globalization and liberalization of the market by the Congress government under Rajiv Gandhi. In his government tenure, plenty of restrictions were abolished on a number of sectors and the regulations on pricing were also put off. Effort was also put to increase the condition of the GDP of the country and to increase exports\(^2\).

Even if the economic liberalization policies were undertaken, it did not find much support and the country remained in its backward economic state. The imports started exceeding the exports and the India suffered huge balance of payment problems. The International Monetary Fund (IMF) asked the country for the bailout loan. The fall of the Soviet Union, a main overseas business market of India, also aggravated the problem. The country at this stage was in need of an immediate economic reform\(^3\).
**Liberalization in 1990s**

It was in the 1990s, that the first initiation towards globalization and economic liberalization was undertaken by Dr Manmohan Singh, who was the Finance Minister of India under the Congress government headed by P.V. Narasimha Rao. This is perhaps the milestone in the economic growth if India and it aimed towards welcoming globalization. Since, the liberalization plan, the economic condition gradually started improving and today India is one of the fastest growing economies in the world with an average yearly growth rate of around 6-7 per cent\(^4\).

**Impact of Economic Liberalisation**

Globalization and liberalization has greatly influenced the Indian economy and made it a huge consumer market. Today, most of the economic changes in the country are based on the demand supply cycle and other economic factors. Today, India is the world's 12th largest economy in terms of market exchange rate and 4th largest in terms of the Purchasing Power Parity. According to a report by the World Bank, the Indian market is expected to grow at around 8 per cent in the year 2010\(^5\).

Globalization and liberalization has also made a positive impact on various important economic segments. Today, the service sectors, industrial sectors and the agriculture sector have really grown to a great extent. Around 54 per cent of the
annual Gross Domestic Product (GDP) of India comes from the service industry while the industrial and agriculture sector contributes around 29 per cent and 17 per cent respectively. With the improvement of the market, more and more new sectors are coming up and reaping profits such as IT services, chemical, textiles, cement industry and so on. With the increase in the supply level, the rate of employment is also increasing considerably.

There has been an improvement in the manufacturing sector as well which grew from 8.98 per cent in 2005 to around 12 per cent. The communication segment has grown up to around 16.64 per cent. The condition is expected to improve further with more demand and increase in customer base. The yearly growth of the industrial sector has been around 6.8 per cent which will rise more in the future. India is one of the well known industrial markets in the Asia-Pacific region.

**Foreign Direct Investment (FDI):** One of the main aspects of globalization is foreign investment. India today has emerged as one of the perfect markets for foreign investors due to its vast market base. More and more foreign companies are investing in the Indian market to get more returns. The foreign institutional investments (FII) amounts to around US$ 10 billion in FY 2008-09, while the rate of Foreign direct investments (FDI) has grown around 85.1 per cent in 2009 to US$ 46.5 billion from US$ 25.1 billion (2008).
The information regarding the growth of foreign direct investments in India both the international practices by the Reserve Bank of India and FDI equity inflows as per the Department of industrial Policy and Promotion, Ministry of Commerce and Industry is presented in Table. 4.1.

**Table 4.1: Growth in FDI Inflows**

<table>
<thead>
<tr>
<th>No</th>
<th>Years</th>
<th>As per International Practices*</th>
<th>% Growth</th>
<th>FDI Equity Inflows#</th>
<th>% Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2003-04</td>
<td>4.32</td>
<td>14.00</td>
<td>2.23</td>
<td>18.00</td>
</tr>
<tr>
<td>2</td>
<td>2004-05</td>
<td>6.05</td>
<td>40.00</td>
<td>3.78</td>
<td>69.00</td>
</tr>
<tr>
<td>3</td>
<td>2005-06</td>
<td>8.96</td>
<td>48.00</td>
<td>5.97</td>
<td>58.00</td>
</tr>
<tr>
<td>4</td>
<td>2006-07</td>
<td>22.83</td>
<td>155.00</td>
<td>16.48</td>
<td>176.00</td>
</tr>
<tr>
<td>5</td>
<td>2007-08</td>
<td>34.84</td>
<td>53.00</td>
<td>26.86</td>
<td>63.00</td>
</tr>
<tr>
<td>6</td>
<td>2008-09</td>
<td>35.18</td>
<td>1.00</td>
<td>27.99</td>
<td>4.00</td>
</tr>
<tr>
<td>7</td>
<td>2009-10</td>
<td>37.18</td>
<td>6.00</td>
<td>27.15</td>
<td>3.00</td>
</tr>
</tbody>
</table>

*Note:* means RBI Estimates  
# As per Department of Industrial Policy and Promotion Estimates

It may be observed from Table 4.1 that the growth of FDI inflows as per international practices adopted by Reserve Bank of India showed an increasing trend from $ 4.32 US Billion in 2003-04 to $ 37.18 US Billion in 2009-10. While during the same period FDI equity inflows in India increased from $ 2.23 US Billion to $ 27.15 US Billion as per DIPP estimates. The highest growth in the FDI inflows during the period covered under the study was observed in 2006-07 at 155 per cent by RBI estimates and 176 per cent by DIPP estimates.
In India, highest FDI inflows showed in service sector, computer software and hardware, telecommunication, housing and real estate, construction activities respectively. The information regarding highest FDI inflows in selected sectors of Indian Economy is published in Economic Survey 2010-11 and the same is presented in Table 4.2.

Table 4.2: Sectors Attracting Highest FDI Equity Inflows.
(Rs. Crore)

<table>
<thead>
<tr>
<th>No</th>
<th>Sectors</th>
<th>2008-09</th>
<th>2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Services Sectors</td>
<td>28516 (6138)</td>
<td>20776 (4353)</td>
</tr>
<tr>
<td>2.</td>
<td>Computer Software &amp; Hardware</td>
<td>7329 (1677)</td>
<td>4351 (919)</td>
</tr>
<tr>
<td>3.</td>
<td>Telecommunications</td>
<td>11727 (2558)</td>
<td>12338 (2554)</td>
</tr>
<tr>
<td>4.</td>
<td>Housing and Real Estate</td>
<td>12621 (2801)</td>
<td>13586 (2844)</td>
</tr>
<tr>
<td>5.</td>
<td>Construction Activities</td>
<td>8792 (2028)</td>
<td>13516 (2862)</td>
</tr>
</tbody>
</table>

Note: Figures in parenthesis are US$ million.

It may be observed from Table 4.2 that the highest FDI equity inflow in India during 2009-10 was observed in service sector. Second, third and fourth position observed in construction, housing and real estate and telecommunications respectively. The highest sector-wise FDI inflows in India during 2008-09 & 2009-10 are depicted in Figure 4.1.
The information regarding FDI Flows to Infrastructure in Indian economy during the last three years is presented in Table 4.3.

Table 4.3: FDI Flows to Infrastructure (US$ million)

<table>
<thead>
<tr>
<th>No</th>
<th>Sector</th>
<th>2007-08</th>
<th>2008-09</th>
<th>2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Power</td>
<td>968.00</td>
<td>984.80</td>
<td>1437.30</td>
</tr>
<tr>
<td>2.</td>
<td>Non Conventional Energy</td>
<td>43.20</td>
<td>85.30</td>
<td>497.90</td>
</tr>
<tr>
<td>3.</td>
<td>Petroleum and Natural Gas</td>
<td>1426.80</td>
<td>412.30</td>
<td>272.10</td>
</tr>
<tr>
<td>4.</td>
<td>Telecommunication</td>
<td>1261.50</td>
<td>2588.40</td>
<td>2554.00</td>
</tr>
<tr>
<td>5.</td>
<td>Information and Broadcasting*</td>
<td>299.20</td>
<td>748.7</td>
<td>491.20</td>
</tr>
<tr>
<td>6.</td>
<td>Air Transport**</td>
<td>99.10</td>
<td>35.20</td>
<td>22.60</td>
</tr>
<tr>
<td>7.</td>
<td>Sea Port</td>
<td>128.40</td>
<td>50.20</td>
<td>284.90</td>
</tr>
<tr>
<td>8.</td>
<td>Ports</td>
<td>918.20</td>
<td>493.20</td>
<td>65.40</td>
</tr>
<tr>
<td>9.</td>
<td>Railway Related</td>
<td>12.40</td>
<td>18.00</td>
<td>34.20</td>
</tr>
<tr>
<td>10</td>
<td>Total</td>
<td>5156.80</td>
<td>5386.10</td>
<td>5659.60</td>
</tr>
</tbody>
</table>

Notes: - * means information and broadcasting including print media.
        ** means air transport including air freight.
It may be observed from Table 4.3 that the FDI flows to Infrastructure increased from $5156.8 US Million in 2007-08 to $ 5659.60 US Million in 2009-10. The details regarding FDI flows to infrastructure in India during 2009-10 is depicted in Figure 4.2.

**Figure 4.2: FDI Inflows in Indian Infrastructure 2009-10**

(US $ Million)

The continuing global tendency towards the free flow of business and monetary infusions across nations describes globalization which helps in the formation of international financial system. It provides economic independence and triggers competition stimulating globalization to elevate the living standard of people in the nations that offer themselves to the world trade.

**Benefits:** “We have moved from a world where the big eat the small to a world where the fast eat the slow”, as
observed by Klaus Schwab of the Davos World Economic Forum. All economic analysts must agree that the living standards of people have considerably improved through the market growth. With the development in technology and their introduction in the global markets, there is not only a steady increase in the demand for commodities but has also led to greater utilization. Investment sector is witnessing high infusions by more and more people connected to the world's trade happenings with the help of computers. As per statistics, everyday more than $1.5 trillion is now swapped in the world's currency markets and around one-fifth of products and services are generated per year are bought and sold.

Buyers of products and services in all nations comprise one huge group who gain from world trade for reasons encompassing opportunity charge, comparative benefit, economical to purchase than to produce, trade’s guidelines, stable business and alterations in consumption and production. Compared to others, consumers are likely to profit less from globalization. Another factor which is often considered as a positive outcome of globalization is the lower inflation. This is because the market rivalry stops the businesses from increasing prices unless guaranteed by steady productivity. Technological advancement and productivity expansion are the other benefits of globalization because since 1970s growing international rivalry has triggered the industries to improvise increasingly.
Other Benefits: Other benefit of economic liberalisation of India since 1991 is under $^{10}$;

- Commerce as a percentage of gross world products has increased in 1986 from 15 per cent to nearly 27 per cent in recent years.
- The stock of foreign direct investment resources has increased rapidly as a percentage of gross world products in the past twenty years.
- For the purpose of commerce and pleasure, more and more people are crossing national borders. Globally, on average nations in 1950 witnessed just one overseas visitor for every 100 citizens. By the mid-1980s it increased to six and ever since the number has doubled to 12.
- Worldwide telephone traffic has tripled since 1991. The number of mobile subscribers has elevated from almost zero to 1.8 billion indicating around 30 per cent of the world population. Internet users will quickly touch 1 billion.

Important Issues

Some of the important issues which need immediate attention of our policy makers and government and they are;

- Across the nations, globalization triggers the services of large sections of working people more effortlessly substitutable,
• Commerce can set free factors that weaken guidelines in national practices, for example workers in South Carolina are replaced by child labourers in Honduras,
• Globalization and its cutthroat rivalry make it hard for administration to perform important tasks of offering the social programs.
• Public education, which will demand proper evaluation and outcomes of globalization incorporating its benefits.
• Amending practices to review the international fiscal institutions to assist in averting crises, facilitating helpful early warning systems, better synchronization of exchange rates among the world markets and arranging the private sector in order in performing rescue functions, and
• Reorganizing the bilateral liberalization of the global financial system, which should tackle the major areas related to food trade, labour pacts and the environment.

Globalization is the new catchphrase in the world economy, dominating the globe since the nineties of the last century. People relied more on the market economy, had more faith in private capital and resources, international organizations started playing a vital role in the development of developing countries. The impact of globalization has been fair enough on the developing economies to a certain extent. It brought along with it varied opportunities for the developing countries. It gave a fillip for better access to the developed
The technology transfer promised better productivity and thus improved standard of living.

The gains from globalization can be cited in the context of economic globalization:

**Trade in Goods and Services:** From the theoretical aspect, international trade ensures allocating different resources and that has to be consistent. This specialization in the processes leads to better productivity. We all know from the economic perspective that restrictive trade barriers in emerging economies only impede growth. Emerging economies can reap the benefits of international trade if only all the resources are utilized in full potential. This is where the importance of reducing the tariff and non-tariff barriers crop up.

**Movement of Capital:** The production base of a developing economy gets enhanced due to capital flows across countries. It was very much true in the 19th and 20th centuries. The mobility of capital only enabled savings for the entire globe and exhibited high investment potential. A country's economic growth doesn't, however, get barred by domestic savings. Foreign capital inflow does play an important role in the development of an economy. To be specific, capital flows either can take the form of foreign direct investment or portfolio investment. Developing countries would definitely prefer foreign direct investment because portfolio
Investment doesn't have a direct impact on the productive capacity expansion.

**Financial Flows:** The capital market development is one of the major features of the process of globalization. We all know that the growth in capital and mobility of the foreign exchange markets enabled better transfer of resources across borders and by large the global foreign exchange markets improved. It is mandatory to go in for the expansion of foreign exchange markets and thus facilitate international transfer of capital. The major example of such international transfer of funds led to the financial crisis - which has by now become a worrying phenomenon.

Thus, globalization has the fair and rough share of its impacts and thus we can surely hope for more advancement in the global economy due to this process.

**Negative Impacts of Economic Liberalisation**

Globalization has also thrown open varied challenges such as inequality across and within different nations, volatility in financial market spurt open and there were worsening in the environmental situation. Another negative aspect of globalization was that a majority of third world countries stayed away from the entire limelight. Till the nineties, the process of globalization in the Indian economy had been guarded by
trade, investment and financial barriers. Due to this, the liberalization process took time to hasten up. The pace of globalization did not start that smoothly.

Economic integration by 'globalization' enabled the cross country free flow of information, ideas, technologies, goods, services, capital, finance and people. This cross border integration had different dimensions - cultural, social, political and economic. More or less the economic integration happened through four channels -

1. Trade in goods and services
2. Movement of capital
3. Flow of finance
4. Movement of people

Not only the word globalization has amplified over the last few years, but the term anti-globalization has appeared and is still growing. Anti-globalization or against globalization is the umbrella term for a collection of diverse protest grounds, incorporating: conservationism, third world obligation, animal rights, child labor, lawlessness, against capitalism and disagreement to MNCs.

World Trade Organization (WTO), International Monetary Fund (IMF), and World Bank are the institutes which has been the focus of anti-globalization disputes. As the industries are flourishing globally, anti-global operations and disputes are also growing aggressively.
Disadvantages of Liberalisation

Big companies with international businesses are charged of social inequality, poor working conditions, turning blind eye towards environmental issues, unprofessional handling of natural resources, and biological harm. Anti-globalization supporters feel that the World Trade Organization, the World Bank and the International Monetary Fund are the leaders of economic globalization and blindly follow only those guidelines which yield them corporate interests.

1. Anti-globalists feel that the economic growth is not the only factor which make people happier but can often make their lives depressing with organizations like WTO making the rich richer and the poor poorer. These organizations get away with their share of profits by ignoring nature and human interests.

2. Globalization elevates the inflow of skilled and non-skilled employment opportunities from the developed economies to third world in search of cheap workforce.

3. Growth in chances of monetary commotions in one country effecting all other countries.

4. Corporate control of nation-states is greater than that of civil society associations.

5. The privatization of world media and its authority in the hands of a few restricts the artistic and ethnic expression.
6. Globalization might lead to greater risks of violent behavior from people at the receiving end in an effort to conserve cultural inheritance.

7. Restriction less international travel and influx of foreign visitors generate greater chances of spread of diseases carried accidentally between countries.

8. Anti-globalists predict that the globalization is responsible for altering people's mindset, outlook and lifestyle and promote materialistic way of living.

9. They also hold international organizations like the World Trade Organization responsible for violating national and individual independence.

10. Greater probability of civil war within the third world nations and open conflict between them as they compete for resources.

Opposing WTO- Reasons for

Important reasons for opposing World Trade Organization's policy by some of the countries are;

The WTO norm only serves the purpose of MNCs:-

The WTO, as per the anti-global campaigners, is not an autonomous establishment. The guidelines of WTO are formed by and for institutions with close access to discussions. Moreover, this international organization heavily depends on its 17 "Industry Sector Advisory Committees" for the supply research data for the purpose of trade consultations. Contributions by consumer, human rights, labour and
environmental organizations are deliberately and repeatedly overlooked.

**The WTO ignores Labour & Human Rights:**-Probable solutions to curbing child labour and human rights abuses are wedged by the WTO clarifying that it is beyond the legal jurisdiction for an administration to prohibit a product on the basis of the way it is manufactured and secondly the administration can neither consider the code of conduct of the firms that do business with governments nor can take the behaviour of companies into account that perform business with brutal despotism.

**WTO is a Foe for Environment:** - The WTO terms the environmental policies as "hindrance to trade" and encourages firms to break them. Practices such as removing tax on wood products by WTO were a deliberate attempt for amplifying the timber demand which would eventually trigger deforestation.

**WTO is Responsible for Slaying People:** - The vicious resistance of intellectual property rights-official documents, copyrights and trademarks by WTO is implemented at the cost of ignoring wellbeing and human lives. The administration of developing nations has been pressurized by the international organization to trigger the utility of standard drugs and remove the practice of producers providing monetary help to medicos who recommend their products
which permits firms to import medicines from other nations where cheap drugs are available.

**WTO is Increasing Social Disparity:** - The phenomenon of free commerce is not helping the majority of the world. Social disparity worsened during 1960 to 1998 both internationally and within nations. This period on the contrary witnessed a rapid increase in global commerce and investments. As per the UN Development Program the 20 per cent of world's richest population devour 86 per cent of world's natural resources while the 80 per cent of the underprivileged are left with 14 per cent of the resources.

**Effect of Liberalisation on India**

There has been an ongoing debate about the effect of globalization on Indian poverty level. According to some scholars, over the years, globalization has become a major factor behind the high economic growth in the country. The favourable economic conditions have put a positive impact on the overall standard of living of the country. However, there are some scholars who argue that globalization, as such, does not have any such significance in improving the poverty situation in India. By properly analyzing various factors, we can have an idea whether globalization really puts a positive impact to improve the poverty situation.

**Liberalisation & Economic Growth:** - It was in the 1990s that the first economic liberalization policies were
initiated by the then Finance Minister Dr Manmohan Singh to encourage the wake of globalization in India. Since then, the economic condition of India has significantly increased. Over the years, India has gradually become one of the fastest growing economies in the world. It has become the 4th largest economy in the world in terms of the purchasing power parity (PPP). It has been expected that the average yearly economic growth will range between 6 per cent and 7 per cent.

Due to the high economic growth, there has been rapid progress in the civic amenities. The per capita income has increased which has improved the standard of living of the masses. As economic growth is a great factor behind the improvement of the poverty, the rise in the economic condition of India had a favourable impact on the reducing the rate of poverty in the country.

**Liberalisation and Employment:** Liberalisation has also put a favourable effect on the employment scenario of the country. Over the years, due to the liberalization policies, India has become a consumer oriented market where the changes are brought by the demand and supply forces. Due to the high demand and the supply chains, there has been significant growth in the market. As such, more and more job opportunities are being created in different sectors. This has increased the per capita income considerably which has improved the poverty level to a great extent.
The growth of the various sectors has also opened up new employment opportunities which have put a positive impact on the overall poverty situation of the country. More and more industries are being introduced in the market to cater to the growing demand. Some of the well known industries that have recently become very popular in the country are personal and beauty care, agro products, health care, information technology and some other sectors. The service sector has a share of around 54 per cent of the annual Gross Domestic Product (GDP). The share of the agricultural and industrial sectors in the annual GDP is 17 per cent and 29 per cent.

**Growth of Agriculture:** A major portion of the poverty level in India is from the rural areas whose staple form of income is agriculture and farming. Due to the globalization, Indian agriculture has improved to some extent which has helped to reduce the poverty problems of the rural masses.

Over the years, with the advent of more technology, there has been a significant change in the process of agriculture in the country. Earlier farmers used traditional farming techniques for growing crops. As such, they suffered a lot and the output was affected by a number of factors like pest problems, weather situations and lots more. Due to the globalization and introduction of better equipments, there has been a stark improvement in the techniques of agriculture. Today, farmers are using gadgets like rowers, tractors, electric pipelines and lots more for the cultivation of crops. This has
increased the produce in terms of quantity as well as quality. As such, farmers have started earning more and have improved their per capita income and the standard of living.

The government has also taken several positive steps to improve the poverty situation in the rural areas. Irrigational projects have been undertaken, dams have been built and more facilities have been provided to the farmers to increase their agricultural produce. As lots of farmers are poor, they are not in a position to buy expensive equipments. To solve this problem and make them self sufficient, the government also grants financial help and loan to the farmers at very cheap rates. The government has set up the National Bank for Agriculture and Rural Development (NABARD) and various other Regional Rural Banks (RRBs) to financially help the farmers in need. Housing projects are also being undertaken to solve the accommodation problems of the poor.

**Improvement in Health Care:** - Liberalization has also positively affected the overall health care situation in the country. More and more medical innovations are coming in which are improving the health situation in India. The infant mortality rate and the malnutrition rate have significantly come down since the last decade. All these factors clearly prove that the globalization helped reduce the India poverty level.

**Liberalisation & Mergers in India:** - The extents to which cross border mergers and acquisitions are growing are all due to the globalization process. It has been observed of
late that there are several sectors of the economy that are heating up with a number of cross border mergers and global alliances. This is only to improve the economic state of the country.

Liberalization and mergers in India has only helped in improving the economic state. The automobile sector, steel, cement, pharmaceutical, petrochemical, and many more sectors have only experienced successful mergers with overseas companies in India. These global associations have brought them an array of success which has created a brand value in the market. The sector which rules the merger scenario in India and is a result of the globalization process is the automobile sector. The mergers of Maruti Udyog Pvt Ltd and Tata Motors in India have led this sector to a booming path.

Countries that are seeking mergers in India for enhancing the trade scenario are Canada, Holland, Belgium, Italy, Sweden, Norway, Poland, Germany, Spain and the United Kingdom. Globalization and mergers in India is an important standpoint of any corporate executive on every detail of mergers and acquisitions implemented around the world. Mergers in India may include mergers, joint ventures, acquisitions, takeovers, and other kinds of cross-border transactions. The trends and growth of mergers and acquisition dealings has led to a noticeable increase in the globalization and mergers in India.
Liberalization and mergers in India have been massively advantageous for all sectors across India and this has increased the global market efficiency.

The relation between globalization and mergers in India are quite noteworthy. The important elements of Indian mergers for globalization can be cited as follows:

1. Merger & Agreements (M&A) is a good growth strategy in context of globalization – Corporate in India have been experiencing a surge in the revenue growth due to cross border mergers and the figures are only to go up more.

2. Most Indian companies have a clear M&A strategy – the market strategy is clearing for most corporate. That is why when finalizing a deal, there arises no confusion.

3. Top M&A markets – The top M&A markets are US, India and UK.

Future of Liberalisation & Mergers in India:- Companies usually choose the growing through the M&A route, rather than going in for an organic growth strategy due to a lot of added advantages. The inclination towards globalization and expanding through mergers and acquisitions is a rising phenomenon nowadays. Finally, the globalization trend has set in. As companies plan to expand their territory, global expansion is what they aim at. And this is where the
marriage of two overseas companies gives rise to the concept of globalization.

There have been instances where cross-border M&As have proved to have reaped unsatisfactory results. Considering a lot of external factors like corporate governance, political factors, countries involved, and regulatory norms can actually lead the company towards the success path. This is why the mergers in India have seen a considerable surge.

**Effects of Liberalisation in Indian Industry**

Effects of Globalization on Indian Industry started when the government opened the country's markets to foreign investments in the early 1990s. Globalization of the Indian Industry took place in its various sectors such as steel, pharmaceutical, petroleum, chemical, textile, cement, retail, and BPO.

Liberalization means the dismantling of trade barriers between nations and the integration of the nations economies through financial flow, trade in goods and services, and corporate investments between nations. Globalization has increased across the world in recent years due to the fast progress that has been made in the field of technology especially in communications and transport. The government of India made changes in its economic policy in 1991 by which it allowed direct foreign investments in the country. As a result
of this, globalization of the Indian Industry took place on a major scale.

The various beneficial effects of globalization in Indian Industry are that it brought in huge amounts of foreign investments into the industry especially in the BPO, pharmaceutical, petroleum, and manufacturing industries. As huge amounts of foreign direct investments were coming to the Indian Industry, they boosted the Indian economy quite significantly. The benefits of the effects of globalization in the Indian Industry are that many foreign companies set up industries in India, especially in the pharmaceutical, BPO, petroleum, manufacturing, and chemical sectors and this helped to provide employment to many people in the country. This helped reduce the level of unemployment and poverty in the country. Also the benefit of the Effects of Globalization on Indian Industry are that the foreign companies brought in highly advanced technology with them and this helped to make the Indian Industry more technologically advanced.

The various negative effects of liberalization on Indian Industry are that it increased competition in the Indian market between the foreign companies and domestic companies. With the foreign goods being better than the Indian goods, the consumer preferred to buy the foreign goods. This reduced the amount of profit of the Indian Industry companies. This happened mainly in the pharmaceutical, manufacturing, chemical, and steel industries. The negative Effects of
Globalization on Indian Industry are that with the coming of technology the number of labour required decreased and this resulted in many people being removed from their jobs. This happened mainly in the pharmaceutical, chemical, manufacturing, and cement industries.

The effects of liberalization on Indian Industry have proved to be positive as well as negative. The government of India must try to make such economic policies with regard to Indian Industry’s Globalization that are beneficial and not harmful. Liberalization and Structural Changes in the Indian Industrial Sector took place in the early 1990s when the government decided to open the markets to foreign investments by forming new economic policies.

Structural Changes in the Indian Industrial Sector and Globalization were initiated because the government wanted to encourage growth by doing away with supply bottlenecks that stopped efficiency and competitiveness.

Liberalisation implies the dismantling of trade barriers between nations and the integration of the economies of the nations through financial flow, trade in services and goods, and corporate investments between nations. Globalization has increased in the recent years due to the rapid progress that has been made in the area of technology especially in communications and transport. The Indian policies with regard to the industrial sector before globalization had imposed many
restrictions on the sector with regard to the use and procurement of capital and raw material, type and nature of industry where the entry of private sector was allowed, the operation scale, and the various markets where they could supply. The Indian industrial policies favoured firms of small size that were labour intensive.

The Structural Changes in the Indian Industrial Sector was brought about by the New Economic Policy of 1991 which did away with many of the regulations and restrictions. The various advantages of Globalization and Structural Changes in the Indian Industrial Sector are that it brought in huge amounts of foreign investments and this gave a major boost to this sector. Many foreign companies entered the Indian market and they brought in highly technologically advanced machines into the country as a result of which the Indian Industrial Sector became technologically advanced. With new companies being set up in the Indian Industrial Sector it provided employment opportunities for many people in the country which in its turn helped to reduce the level of poverty in the country. The information regarding sector-wise FDI inflows to Indian industry and Infrastructure during 1991-2010 is presented in Table 4.4.

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</thead>
<tbody>
<tr>
<td>1</td>
<td>Food Products</td>
<td>972.6</td>
<td>392.2</td>
<td>80.7</td>
<td>150.5</td>
<td>348.2</td>
</tr>
<tr>
<td>2</td>
<td>Fermentation</td>
<td>51.1</td>
<td>216.3</td>
<td>270.1</td>
<td>144.7</td>
<td>112.0</td>
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<tr>
<td>----------------------------------------</td>
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<td>---------</td>
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</tr>
<tr>
<td>3. Textiles</td>
<td>249.2</td>
<td>327.2</td>
<td>186.0</td>
<td>157.4</td>
<td>140.6</td>
<td></td>
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<tr>
<td>4. Wood Products</td>
<td>0.10</td>
<td>0.60</td>
<td>0.40</td>
<td>11.30</td>
<td>6.50</td>
<td></td>
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<tr>
<td>5. Paper</td>
<td>327.20</td>
<td>139.00</td>
<td>104.20</td>
<td>310.10</td>
<td>85.90</td>
<td></td>
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<tr>
<td>6. Leather</td>
<td>43.40</td>
<td>16.80</td>
<td>7.50</td>
<td>3.30</td>
<td>5.10</td>
<td></td>
</tr>
<tr>
<td>7. Chemicals</td>
<td>1810.40</td>
<td>1934.10</td>
<td>582.30</td>
<td>992.50</td>
<td>611.80</td>
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<tr>
<td>8. Rubber, Plastic &amp; Petroleum Products</td>
<td>342.10</td>
<td>464.70</td>
<td>1441.90</td>
<td>497.20</td>
<td>296.20</td>
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<tr>
<td>8. Non Metallic Minerals</td>
<td>515.80</td>
<td>877.90</td>
<td>143.00</td>
<td>944.20</td>
<td>45.60</td>
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<tr>
<td>9. Metal &amp; Mineral products</td>
<td>223.00</td>
<td>548.70</td>
<td>1176.90</td>
<td>960.90</td>
<td>406.70</td>
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<td>10. Machinery &amp; Equipments</td>
<td>3092.40</td>
<td>6854.40</td>
<td>2645.70</td>
<td>2528.10</td>
<td>2515.30</td>
<td></td>
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<tr>
<td>11. Transport Equipments</td>
<td>431.10</td>
<td>1130.80</td>
<td>674.80</td>
<td>1151.70</td>
<td>1176.60</td>
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<tr>
<td>12. Other Manufacturing</td>
<td>2834.20</td>
<td>1184.70</td>
<td>704.30</td>
<td>1566.10</td>
<td>1079.40</td>
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<tr>
<td>13. Mining</td>
<td>7.80</td>
<td>55.80</td>
<td>458.30</td>
<td>34.40</td>
<td>174.00</td>
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<tr>
<td>14. Power*</td>
<td>1858.80</td>
<td>398.50</td>
<td>1011.20</td>
<td>1070.10</td>
<td>1935.20</td>
<td></td>
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<tr>
<td>15. Telecommunications</td>
<td>2140.40</td>
<td>1505.90</td>
<td>1261.50</td>
<td>2558.40</td>
<td>2554.00</td>
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<tr>
<td>16. Total</td>
<td>14926.00</td>
<td>16047.60</td>
<td>10748.50</td>
<td>13080.80</td>
<td>11493.00</td>
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</tbody>
</table>

*Includes Non conventional Energy Sector.

It may be observed from Table 4.4 that FDI inflows in India during 1991-2002 were only at $14296 US million. The same was at $16046.60 during 2002-07 and further $11493 US million in 2009-10. The highest FDI inflow during 2009-10 was observed in telecommunication. The other higher FDI inflow sectors were machinery equipments, power, other manufacturing, chemicals etc.

The various disadvantages of Globalization and Structural Changes in the Indian Industrial Sector are that with many foreign companies entering the sector increased the competition for the domestic companies. With foreign goods being better than the Indian products, the consumer in the country preferred to buy the foreign goods. This reduced the
profit levels of the Indian companies and they had to resort to lowering the prices of their products which in turn further lowered their levels of profit. With highly advanced technology entering the Indian Industrial Sector, the number of labour required in the sector reduced. The number of labour in the Indian Industrial Sector in 1990-1991 was 81,62,504 and in 2003-2004, the figure has decreased to 78,70,081. Thus, Globalization and Structural Changes in the Indian Industrial Sector poses advantages and disadvantages for the country.

So the government of India must take steps in order to ensure that the changes in the structure of the Indian Industrial Sector are such that it facilitates globalization in a manner that is gainful and constructive for a country like India.

**Liberalisation and Real Estate Sector in India**

As per the World Investment Report 2008, India is the second most attractive location for Foreign Direct Investment for the years 2008-2010\(^2\). As per the said report, the total Foreign Direct Investment that had come into India during 2005 was 7606 million US dollars. The said amount increased to 19662 million US dollars for the year 2006 and it further increased to an amount of 22950 million US dollars for the year 2007\(^3\). It is also stated that in the said report that there is a substantial increase in the flow of FDI in South Asia and more particularly to India\(^4\).
The importance of real estate sector in FDI inflows into India is well established. According to the report published by the India brand Equity Foundation 2005\textsuperscript{15}, the total size of the real estate sector market was around 12 billion US dollars and it was estimated to grow at a steady clip of over 30 per cent per annum. The report also clearly narrated that the capital housing stock in India constitutes around 5 sq. mtr per capita which is extremely low compared to developed or developing countries in the world.

As per the above-mentioned report the estimate of component of real estate FDI to the total FDI for the year 2005 was in between 10-20 per cent. This exponential growth of the component of real estate in the total FDI inflows has been triggered by the liberalised FDI policy\textsuperscript{16}. According to the Federation of Indian Chamber of Commerce and Industry (FICCI), the decision of the Government of India to liberalize the FDI announced in the construction sector is perhaps the most significant economic policy decision taken by the Central Government\textsuperscript{17}.

Prior to the present system, the Foreign Exchange Regulation Act, (FERA), 1973 was in force. FERA was repealed by the Foreign Exchange Management ACT (FEMA), 1999\textsuperscript{18}. With the repeal of FERA, the field came to be governed by the FEMA. In regard to the Transfer or Issue of Security by a person resident outside India, the same was regulated by the Foreign Exchange Management (Transfer or
Issue of Security by a person resident outside India) Regulations 2000\textsuperscript{19}. Regulation 6 of the said regulation provided that a person resident outside India may purchase equity or preference shares or convertible debentures only in terms of Foreign Direct Investment Scheme provided in the schedule of the 1 of the said regulations.

Therefore, FDI in India has to follow the procedure and limitations prescribed in the schedule 1 of the said regulation i.e. it has to follow the FDI scheme. Rule 2 of the scheme prescribe that an Indian company can issue shares or convertible debentures to any person resident outside India provided that the Indian Company is not engaged in any activity or in the manufacturing item included in the Annexure A. Annexure A at the time when the said regulation was introduced (i.e. 3\textsuperscript{rd} May 2002) had an entry at serial No. 5 which read us under:

“5: Housing and Real Estate Development sector for investment from persons other than NRIs.”

Annexure B of the said regulation provided for sectoral caps for FDI in various sectors. Item No. 2 of Annexure B provided the NRIs\textsuperscript{20} were allowed to invest in certain specific schemes. Therefore, there was no difference between the regime which existed prior to the coming into force of the FEMA and regime prescribed by the original regulations of FEMA. Therefore, the limitations and scope of press Note
2(2000 series) was applicable at this stage. Thereafter the Press Note No. 4 21(2001 series) revised the existing sectoral guidelines on the FDI. It inter-alia permitted the following:

iv. FDI upto 100 per cent is permitted for development of integrated townships, including housing, commercial premises, hotel, resorts, city and regional level urban infrastructure facilities such as roads and bridges, mass rapid systems, manufacture of building materials. Development of land and providing allied infrastructure will form an integral part of township’s development. Which necessary guidelines/ norms relating to minimum capitalization, minimum land area, etc, will be notified separately by the Government FDI in this sector would be permissible with prior government approval.

As per the Note No. 4 (2001 series) the minimum requirements as follows;

- Foreign company seeking to invest shall be registered as an Indian Company and would be allowed to take up land assembly and its development as a part of Integrated Township Development.
- All cases will processed by FIPB on the recommendation of the Ministry of Urban Development.
The core business of the company seeking to make investments should be integrated township development with a record of successful execution.

- The minimum area to be developed by such company should be 100 acres.
- The minimum capitalisation norm was 10 million US Dollars for a wholly owned subsidiary and 5 Million US dollars for joint ventures with Indian Partners.

Government of India issued Press Note No.2 (2005 series)22 substantially liberalised the FDI policy in relation to townships, housing, built up infrastructure and construction development project. The objective of this policy is to ensure investment in these areas, create new employment opportunities and add to the available housing stock and built up infrastructure23. The other significant changes in the said Press Note are;

- The minimum area to be developed in relation to the development of a serviced housing plot is 10 hectares, in relation to the construction development project the minimum built up area was 50000 sq. mtrs (development criteria)
- The minimum capitalization that was required for a wholly owned subsidiary was 10 million US dollars and for a joint venture with an Indian partner the minimum capitalization required was 5 million US dollars. It was also mandatory that the funds have
to be brought in within six months of commencement of business (investment criteria).

- Other conditions are
  i. at least 50 per cent of the project must be developed within 5 years from obtaining all statutory clearances.
  ii. Investors were not permitted to sell undeveloped plots\textsuperscript{24}.
  iii. The project has to conform the norms and standards laid down by respective state authorities.
  iv. Investor is responsible for obtaining all necessary approvals as prescribed under the applicable laws, etc.,
  v. The state government/ municipal board/ local body, which approve the development plan, would monitor compliance of all the criteria mentioned herein above.

Thus, the policy has changed the development and investment criteria as well as township criteria. It is required that huge systematic and regulatory changes are conducted the state level. One of the inhibiting factors in the free flow of Foreign Direct Investment in the housing and township sector is the varied legal framework of each Indian state and union territory. This is evident from the fact that availability of land for housing has been constrained by various laws like Land Reforms Law etc. This brings confusion to the investor, and makes it all the more necessary have a consolidated
document specifying the approvals required from the concerned authorities & procedure thereof so that they are clear on the legal requisites before investing.
References:


13. ibid, P.255

14. ibid, P.47.

15. Real Estate 2005: India’s Coming Reality Show- India Brand Equity Foundation. The Indian Brand Equity foundation is a Public Private Partnership between the Ministry of Commerce and industry and Confederation of Indian Industry.


17. Ibid Foot Note. 7.

18. The Foreign Exchange Management Act, 1999 was notified vide notification No. GSR 371(E) dated 1st May 2000.

19. The Foreign Exchange Management (Transfer or Issue of Security by a person resident outside India) Regulations 2000 was notified vide Notification No. GSR 406 (E) dated 3rd May 2000.

20. The expression of OCBs was omitted by FEMA (withdrawal of genuine permission to Overseas
Corporate Bodies (OCBs) Regulations 2003 with effect from 3rd October 2003.


22. Press Note 2 (2005 Series) was issued by the Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, Government of India, New Delhi.

23. Press Note 2 (2005 Series) was issued by the Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, Government of India, New Delhi. It is important to note here that there is a greater realization with the policy makers that there is a need to increase FDI in Real Estate and Housing Sector. In addition the chapter 11 of the 11th Five Year Plan Document regarding urban infrastructure, housing, basic service and poverty alleviation has commented that the rate of urbanization in India is low and has led to tremendous pressure on civic infrastructure due to the large number of people are in urban. It also points out that there is an urgent need to create urban infrastructure by way of private participation.

24. Underdeveloped plots has been defined in Press Note No. 2, 2005 series to mean a plot where roads, water supply, street lighting, drainage, sewerage and other conveniences as applicable under the prescribed
regulations, have not been available. It will be necessary that the investor provided this infrastructure and obtains a completion certificate from concerned local body/ service authority before he sells such a plot.