

## GLOBALIZATION IN INDIAN ECONOMY

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### Abstract

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India, “a country with a population of 1.39 billion people and a millennium-long history, is on an astonishing path toward globalization. This change is characterized by a rapid convergence of economic liberalization, which has a substantial impact on India's economic, cultural, and social elements. India navigates the difficult challenges and opportunities posed by an increasingly linked globe with a distinct blend of tradition and modernity. The transition from "Made in India" to "Make in India" captures India's goals for self-sufficiency and global competitiveness. The country has made proactive attempts to attract potential investors under the "Make in India" initiative. Plans for identifying and engaging with possible investors, both domestically and globally, have been developed. Indian Missions in other countries and state governments are given assistance in organizing events, summits, road shows, and promotional activities to encourage domestic investment. These investor outreach programs promote worldwide collaboration while also encouraging Foreign Direct investor (FDI) and making doing business in India easier. The "Made in India" approach, on the other hand, concentrates on the development of indigenous manufacturing capabilities and the promotion of locally made items. The fundamental goal is for India to become self-sufficient and less reliant on imports. The fundamental assumption is that through increasing domestic production, India will be able to provide more job opportunities, eliminate trade imbalances, and strengthen its economy.”

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**INTRODUCTION:**

India, a prospective country with a population of 1.39 crore people<sup>1</sup> and a millennia-long history, has begun a spectacular path toward becoming a globalized entity. This revolutionary process is a dynamic blend of economic liberalization with far-reaching implications for the country's economic, cultural, and social elements. As it strives to negotiate the complicated difficulties and opportunities posed by an increasingly interconnected globe, India's journey toward globalization reflects its distinctive mix of tradition and modernity.

India went from Made in India to Make in India. Establish action plans in India to identify possible investors. Under the “Make in India” umbrella, support is being offered to Indian Missions overseas and State Governments for the organization of events, summits, road shows, and other promotional efforts to encourage investment in the nation. Investment outreach initiatives are being

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<sup>1</sup> Pti. India's projected population, as on July 1, is 139 crore: Govt to Lok Sabha. *The Times of India*. <https://m.timesofindia.com/india/indias-projected-population-as-on-july-1-is-139-crore-govt-to-lok-sabha/articleshow/102103919.cms>.

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carried out in order to develop international cooperation in order to promote FDI and ease of doing business in the country<sup>2</sup>. The "Made in India" strategy emphasizes the development of indigenous manufacturing capabilities and the promotion of locally produced goods. This strategy intends to make India self-sufficient and reduce its reliance on imports. The assumption is that by encouraging domestic production, India will be able to create more jobs, lower its trade imbalance, and strengthen its economy<sup>3</sup>.

**HISTORICAL CONTEXT:****History of Trade and Commerce in India:**

The history of trade and commerce in India spans thousands of years and illustrates the country's key position in world trade. Because of its strategic location, abundant resources, and cultural diversity, India has become a crossroads for trade routes between

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<sup>2</sup> MAKE IN INDIA 2.0. <https://pib.gov.in/Pressreleaseshare.aspx?PRID=1694804>

<sup>3</sup> Singh D. *Made In India Vs Make In India*. [www.linkedin.com](http://www.linkedin.com). <https://www.linkedin.com/pulse/made-india-vs-make-devdutt-singh-1f/>

the East and West. The story of trade and commerce in India is one of continuity and transition, defined by substantial contributions to world commerce from ancient civilizations to the modern age.

India is blessed to have the Himalayas in the north and bordered by sea on the south. The presence of sea has helped in the spreading of business across the continents. During the ancient times, India was the leading exporter of silk, cotton, sugar, wheat, precious stones. India was also the exporter of spices to the west and this was done through the spice route. Trade and commerce played a significant role in the evolution of the economy of India. It was shown from the archaeological evidence that trade and commerce through land and sea played a very important role in the growth of the Indian economy<sup>4</sup>.

The following are some of the elements that have contributed to India's prominence in global trade and commerce:

- The Indian business community, particularly Hindus, was noted for their business savvy, resourcefulness, perseverance, and integrity.
- Indian items were well-known for their high quality. The distinctiveness of Indian items attracted traders from all over the world.
- The Indian society possessed a talent for shipbuilding as well as a thorough awareness of sea routes, weather, and navigation. This enabled them to trade in far-flung lands<sup>5</sup>.

### **Economy of India under the British Raj**

India was a very urbanized and commercialized nation in the 17th century, with a major export commerce devoted primarily to cotton textiles, but also silk, spices, and rice. India was the world's leading producer of cotton textiles, with significant export trade to Britain and many other European countries through the East India Company. According to some analysts, following the British victory over the

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<sup>4</sup> Admin. *History of trade and commerce in India*. BYJUS. Published online January 21, 2021. <https://byjus.com/commerce/history-of-trade-and-commerce-in-india/>

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<sup>5</sup> Testbook. *History of Trade and Commerce in India notes in detail for exams*. Testbook. Published online October 10, 2023. <https://testbook.com/ugc-net-commerce/history-of-trade-and-commerce-in-india>

Mughal Empire (Battle of Buxar), the East India Company, and then the British, deindustrialized India<sup>6</sup>. In comparison to indigenous Indian producers who were heavily taxed, the British East India Company opened open the enormous Indian market to British goods, which could be sold in India without customs or duties. At the same time, Britain established protectionist laws such as bans and high taxes to prevent Indian textiles from being sold there. Tariffs and charges of 70-80% were imposed by the British on textiles manufactured in India, making them unsuitable for export<sup>7</sup>. From 1850 to 1947, India's GDP in 1990 international currency terms increased by 70%, from 12,570 crore to 21,370 crore, with an average yearly growth rate of 0.55%. This was a faster rate of growth than during the Mughal era (1600-1700), when it increased by 22%, or 0.20% each year, or during the longer period of primarily British East Indian company administration from

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<sup>6</sup> *BBC News. Viewpoint: Britain must pay reparations to India.* BBC News. <https://www.bbc.co.uk/news/world-asia-india-33618621>. Published July 22, 2015.

<sup>7</sup> *Inglorious Empire.* Google Books. [https://books.google.co.in/books?id=ZWwwDwAAQB&pg=PT22&redir\\_esc=y](https://books.google.co.in/books?id=ZWwwDwAAQB&pg=PT22&redir_esc=y)

1700 to 1850, when it increased by 39%, or 0.22% per year<sup>8</sup>. By the end of British control, India's economy accounted for a substantially smaller share of world GDP. India's GDP was 16% of the global GDP in 1820. By 1870, it had dropped to 12%, and by 1947, it had dropped to 4%. During the Raj, India's per capita income remained mainly unchanged, with population increase accounting for the majority of GDP growth. From 1850 to 1900, yearly per capita income growth is expected to vary between 0.75% and 1.25%. This statistic is boosted by a slowdown in India's rate of population growth caused by sickness and famine. By the end of British control, India's economy accounted for a substantially smaller share of world GDP. India's GDP was 16% of the global GDP in 1820. By 1870, it had dropped to 12%, and by 1947, it had dropped to 4%. During the Raj, India's per capita income remained mainly unchanged, with population increase accounting for the majority of GDP growth. From 1850 to 1900, yearly per capita income growth is

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<sup>8</sup> *Bolt J, Van Zanden JL. The Maddison Project: collaborative research on historical national accounts. The Economic History Review. Published online March 1, 2014:n/a. doi:10.1111/1468-0289.12032*

expected to vary between 0.75% and 1.25%. This statistic is boosted by a slowdown in India's rate of population growth caused by sickness and famine<sup>9</sup>.

### **The state of the Indian economy just before gaining independence from British colonial rule**

The economic issues inherited at independence were exacerbated by the costs of partition, which resulted in around 2 to 4 million refugees fleeing across the new borders between India and Pakistan. The economic impact of refugee settlement was significant. India was partitioned into complimentary economic zones. Jute and cotton were farmed in the eastern half of Bengal (East Pakistan, then Bangladesh after 1971), while processing took place mostly in the western section of Bengal, which became the Indian state of West Bengal. As a result, after independence, India was forced to convert land previously utilized for food production to cotton and jute cultivation<sup>10</sup>.

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<sup>9</sup> Sharafi M. *South Asian legal history. Annual Review of Law and Social Science.* 2015;11(1):309-336. doi:10.1146/annurev-lawsocsci-102612-134041

<sup>10</sup> Philip A. Lawn; Matthew Clarke (2008). *Sustainable Welfare in the Asia-Pacific: Studies Using the Genuine Progress Indicator.* Edward Elgar.

Growth continued in the 1950s, albeit at a slower rate than India's politicians had anticipated.

India experienced trade deficits beginning in 1950, which grew in the 1960s. The Indian government has a large budget deficit and hence could not borrow money globally or privately. As a result, the government issued bonds to the Reserve Bank of India, increasing the money supply and causing inflation. Following the Indo-Pakistani War in 1965, the United States and other countries favorable to Pakistan withdrew foreign funding to India, necessitating devaluation. Before aid could be resumed, India was informed it needed to liberalize commerce. The politically controversial step of devaluation followed by liberalisation was the answer. Defence expenditures was 24.06% of total expenditure in 1965/1966, the highest level from 1965 to 1989. The devaluation was exacerbated by the 1965-1966 drought. GDP per capita increased by 33% in the 1960s, peaking at 142% in the 1970s before slowing to 41% in the 1980s

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p. 195. ISBN 9781847205018. "Despite a considerable improvement in rate of growth of India's real GDP in the 1950s, the performance of the Indian economy did not meet the expectations of India's political leaders.

and 20% in the 1990s. From FY 1951 to FY 1979, the economy grew at an average rate of about 3.1 percent a year, or at an annual rate of 1.0 percent per capita<sup>11</sup>.

### **GLOBLIZATION IN INDIA:**

The integration of the national economy and society with the global economy is referred to as globalization. When a country opens its doors, it invites international trade, finance, technology, and cultural cosmopolitanism practices from other countries. Globalization is the process of increasing worldwide economic interdependence through increased cross-border commerce in commodities, services, capital, commodities, and technologies. In other terms, globalization is a means of interaction and union of people, governments, and various governments around the world<sup>12</sup>.

### **Economic Liberalization:**

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<sup>11</sup> A.P. Thakur; Sunil Pandey (2009). 21st Century India: View and Vision. Global Vision Publishing House. p. 52.

<sup>12</sup> *Globalization in India | Safeguard Global*. Safeguard Global. Published June 9, 2022. <https://www.safeguardglobal.com/resources/globalization-in-india/>

Economic liberalisation in India refers to a set of policy reforms intended at opening up the country's economy to the rest of the world in order to make it more market-oriented and consumer-driven. The purpose was to increase the role of private and foreign investment in attaining economic growth and development. Although initial attempts at liberalisation were made in the 1960s and early 1980s, a more comprehensive liberalisation was launched in 1991<sup>13</sup>.

### **The attempt of liberalization in the year 1966:**

1. Rapid Inflation: In the mid-1960s, India experienced significant inflation as a result of a number of causes, including the costs of the Sino-Indian War and a severe drought that hampered agricultural production.
2. Budget Deficit: The Indian government had a significant budget deficit, which meant that it spent more money than it earned. The

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<sup>13</sup> *India - Structural Adjustment Credit Project*. World Bank.

<https://documents.worldbank.org/en/publication/documents-reports/documentdetail/999451468260069468/india-structural-adjustment-credit-project>

wartime and drought-related spending increased the deficit.

3. Economic Pressure: As a result of these economic issues, India was compelled to seek financial aid from international institutions such as the International Monetary Fund (IMF) and the World Bank.

### **Impact:**

1. IMF and World Bank aid: In order to stabilize its economy, India needed financial aid from the IMF and the World Bank. These international financial organizations made loans to India in order to help it manage its budget deficit and stabilize its economy.

2. Economic Liberalization: Receiving help from these institutions frequently requires the implementation of economic reforms and liberalization initiatives. In this scenario, assistance donors such as the IMF and the World Bank pressed India to embrace a more market-oriented and liberalized economic strategy.

3. Rupee depreciation: One of the economic changes implemented was the depreciation of the Indian rupee. Devaluation refers to lowering the value of the national currency in relation to foreign currencies. This initiative aims to reduce the cost of Indian exports to foreign customers and increase

export earnings, thereby improving India's balance of payments.

4. Tariffs and Export Subsidies: The previous system of high tariffs (import taxes) and export subsidies (financial incentives provided to encourage exports) was eliminated. These restrictive policies hampered overseas trade and economic growth. Their removal opened the door to more open trade and international investment.

### **The attempt of liberalization in the year 1980s:**

During the tenures of both Indira Gandhi and later Rajiv Gandhi, there was a shift toward economic liberalization in India. This involved reducing constraints on starting businesses, easing import regulations, and actively fostering the expansion of sectors like automobiles, digitalization, telecommunications, and software. These reforms led to an improvement in the average GDP growth rate, which rose from 2.9 percent in the 1970s to 5.6 percent. However, it's important to note that they did

not fully resolve the fundamental problems associated with the License Raj<sup>14</sup>.

### **The Liberalization of 1991:**

In 1991, the Indian government introduced a significant economic policy known as the New Economic Policy. This policy aimed to reduce economic constraints and enhance India's presence on the global economic stage. Dr. Manmohan Singh, serving as the Finance Minister under the leadership of Prime Minister P.V. Narasimha Rao, formally launched this policy. The New Economic Policy of 1991 was enacted to boost India's economic credibility globally. It centered on accumulating foreign exchange reserves, eliminating market restrictions, and fostering the exchange of goods, services, capital, human resources, and technology on a global scale, thereby stimulating economic growth<sup>15</sup>.

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<sup>14</sup> Mohan R. *India Transformed: Twenty-Five Years of Economic Reforms*. Brookings Institution Press; 2018.

<sup>15</sup> *What Is The New Economic Policy 1991?* Unacademy. Published April 29, 2022. <https://unacademy.com/content/bank-exam/study-material/general-awareness/what-is-the-new-economic-policy-1991/>

### **The Main Features of New Economic Policy**

1. To begin, it abolished the License Raj by eliminating licensing requirements for all industries save those "related to security and strategic concerns, social reasons, safety problems, and overriding environmental issues"<sup>16</sup>.
2. Second, to encourage international investment, it proposed pre-approving all investments with up to 51% foreign equity involvement, allowing foreign businesses to introduce modern technology and industrial development. The traditional policy of government permission for foreign technology deals was eliminated to further incentivize technical growth<sup>17</sup>.
3. The third point recommended breaking up state monopolies by floating shares in public enterprises and limiting public sector expansion to necessary infrastructure, goods and services, mineral exploration, and defense production<sup>18</sup>.

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<sup>16</sup> Verma, A. N. (1991). *Statement on Industrial Policy (India, Ministry of Industry)*. New Delhi: Government of India.

<sup>17</sup> Mohan R. *India Transformed: Twenty-Five Years of Economic Reforms*. Brookings Institution Press; 2018.

<sup>18</sup> *Supra* 16.

4. Finally, the concept of an MRTTP business, in which companies with assets worth more than a specific amount were placed under government supervision, was abandoned<sup>19</sup>.

### **EPOCHAL BUDGET:**

In 1991, India was on the verge of a significant economic transition, and at the helm of this shift was Dr. Manmohan Singh, who would go on to become India's Prime Minister. The 'Epochal Budget,' a budget focused at addressing the immediate concern of reducing the fiscal deficit, was at the center of this transition. One critical strategy for reducing the fiscal imbalance was to reduce government spending. This entailed a series of dramatic steps, such as divesting from public-sector enterprises and reducing fertilizer subsidies. Furthermore, sugar subsidies were fully eliminated. These policies were designed to reduce government spending and ensure fiscal discipline<sup>20</sup>.

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<sup>19</sup> Anushka. *Monopolies and Restrictive Trade Practices Act 1970*. GKToday. Published October 16, 2015. <https://www.gktoday.in/the-monopolies-and-restrictive-trade-practices-act-1970/>

<sup>20</sup> Desk FW, Desk FW. *Everything about Manmohan Singh's Epochal Budget that marked the beginning of economic liberalisation*. Free Press Journal.

During this time, India's foreign exchange reserves were severely depleted. To fight the problem, Dr. Manmohan Singh, the Finance Minister at the time, implemented a 19% devaluation of the Indian rupee in relation to the US dollar. This depreciation was a calculated strategy to make Indian exports more competitive in the global market, hence increasing foreign exchange reserves. The devaluation, however, had an impact, mainly on the cost of importing petroleum, which became more expensive. Dr. Singh advocated lowering the price of kerosene, a critical item for the less affluent population, while concurrently raising petroleum costs for industrial and fuel uses. This balancing endeavor sought to preserve the interests of economically vulnerable segments of society while still harmonizing with greater economic goals<sup>21</sup>. Some of these ideas were enacted, resulting in interest rate liberalization, relaxing of limitations on private banks, and increased autonomy for

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<https://www.freepressjournal.in/webspecial/everything-about-manmohan-singhs-epochal-budget-that-marked-the-beginning-of-economic-liberalisation>. Published July 2, 2019.

<sup>21</sup> 1991: *Economic Reforms. India Before 1991*. Published February 3, 2016. <http://indiabefore91.in/1991-economic-reforms>

banks in creating branches free of government mandates. Based on a proposal from the Indian government, the World Bank approved a structural adjustment loan/credit for India. This financial aid was critical in helping India's stabilization and economic reform program. Deregulation, greater foreign direct investment, trade liberalization, revising domestic interest rates, boosting capital markets, and commencing public enterprise reform were among the initiatives considered<sup>22</sup>.

### **MAKE IN INDIA VS MADE IN INDIA:**

#### **MADE IN INDIA:**

For years, policymakers have debated how to boost manufacturing in India and make it a global manufacturing hub. However, it was Narendra Modi who, in a couple of months, started the 'Make in India' campaign to promote investment, foster innovation, improve skill development, protect intellectual property, and build world-class manufacturing infrastructure.

'Make in India' identifies 'ease of doing business' as the single most essential aspect in encouraging entrepreneurship. Several initiatives have already been launched to

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<sup>22</sup> *Supra* 16

improve the business environment. The goal is to de-license and de-regulate the industry throughout the full corporate life cycle. The availability of modern and convenient infrastructure is a critical necessity for industry expansion. The government plans to build industrial corridors and smart cities to provide infrastructure based on cutting-edge technology, high-speed communication, and integrated logistics<sup>23</sup>. The Indian government has launched several initiatives to boost the manufacturing sector, including the "Make in India" campaign. The campaign aims to encourage both domestic and foreign companies to manufacture their products in India, with the aim of creating jobs, boosting exports, and making India a global manufacturing hub.

"Make in India" had three stated objectives:

1. to increase the manufacturing sector's growth rate to 12-14% per annum;
2. to create 100 million additional manufacturing jobs in the economy by 2022;

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<sup>23</sup> *Make In India | Prime Minister of India.*  
[https://www.pmindia.gov.in/en/major\\_initiatives/make-in-india/](https://www.pmindia.gov.in/en/major_initiatives/make-in-india/)

3. to ensure that the manufacturing sector's contribution to GDP is increased to 25% by 2022 (later revised to 2025)<sup>24</sup>

One of the examples and the prime success is of the "Defence Manufacturing". Within the scope of India's "Make in India" push, India and Russia have significantly improved their defense industrial cooperation. Several significant agreements, notably those relating to navy frigates, KA-226T twin-engine utility helicopters, and the BrahMos cruise missile, highlight this relationship. These accords demonstrate the two countries' strong connection. Joint ventures are in place for naval frigates and KA-226T helicopters, with a large number of helicopters being produced in both Russia and India<sup>25</sup>. The BrahMos cruise missile, a potent defense capability, is co-owned by India and Russia, with India owning 50.5% and Russia owning 49.5%. Notably, a game-changing defense

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<sup>24</sup> n2:0971-751X - Search Results. <https://www.worldcat.org/search?q=n2:0971-751X>

<sup>25</sup> Pubby M. Make in India: Russia ties up with Reliance Defence to manufacture Kamov 226T choppers. *The Economic Times*. <https://economictimes.indiatimes.com/news/defence/make-in-india-russia-ties-up-with-reliance-defence-to-manufacture-kamov-226t-choppers/articleshow/48699194.cms>. Published July 14, 2018.

agreement was signed during Prime Minister Narendra Modi's December 2015 visit to Russia<sup>26</sup>. This deal laid the groundwork for the production of the Kamov Ka-226 multi-role helicopter in India, marking an important step forward in the "Make in India" effort. Furthermore, in August 2015, Hindustan Aeronautics Limited (HAL) launched talks with Russia's Irkut Corp. to expedite the transfer of technology for 332 Sukhoi Su-30MKI fighter aircraft components. These line replacement units (LRUs) include critical and non-critical elements from Radio and Radar, Electrical & Electronics Systems, Mechanical Systems, and Instrument Systems<sup>27</sup>.

## CONCLUSION

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<sup>26</sup> Kumar C. India sees opportunity in manufacturing Sukhoi parts. *The Times of India*. <https://timesofindia.indiatimes.com/city/bengaluru/India-sees-opportunity-in-manufacturing-Sukhoi-parts/articleshow/49949927.cms>. Published November 27, 2015.

<sup>27</sup> Kazmin JF and A. Russia and India sign new defence deals. *CNBC*. <https://www.cnbc.com/2015/12/25/russia-and-india-sign-new-defence-deals.html>. Published December 25, 2015.

Furthermore, India's path to globalization has been defined by important economic reforms, a shift from "Made in India" to "Make in India," and a rich historical context. As the country changes in response to an interconnected globe, India's path toward globalization offers a dynamic blend of tradition and modernity. The role of India in trade and commerce has been significant. For thousands of years, its strategic location, plentiful resources, and cultural diversity have made it a crossroads for trade routes between the East and West. However, India's economic environment underwent transformations, from its prosperous pre-colonial economy to the economic constraints brought by the British colonial period.

Following independence, India's path toward globalization has been marked by a series of economic liberalization attempts, culminating in 1991 with the introduction of the New Economic Policy. The program attempted to increase India's worldwide economic credibility while also encouraging international trade, foreign investment, and technology exchange. The "Make in India" program has been an important part of this change. This effort intends to attract investment, stimulate innovation, and

enhance infrastructure, while also encouraging entrepreneurship and transforming India into a worldwide manufacturing hub. The defense sector has been a success story for "Make in India," with India and Russia signing agreements for naval frigates, helicopters, and the BrahMos cruise missile. The "Made in India" approach, on the other hand, concentrates on indigenous manufacturing capabilities and the promotion of domestically produced items. The goal is to increase self-sufficiency, decrease dependency on imported goods, create jobs, and boost the economy.

To summarize, India's globalization journey is a dynamic and varied process. It demonstrates the country's ability to adapt to a constantly changing global scene while also retaining its unique cultural legacy. Economic reforms, a transition from "Made in India" to "Make in India," and strategic defense alliances are just a few components of India's continuing worldwide change. As India continues to embrace globalization, it will face both obstacles and possibilities in a more interconnected globe.