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Effects of Globalization on Indian Economy: A Postmodern Analysis

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Abstract: In many ways, globalization is heralded as a true successor of postmodernism. However, it has also been regarded as an egalitarian counterpart to the same. In this paper, we analyse globalization in the Indian context and how it has affected the Indian economy. This paper problematizes the effects of globalization on Indian Economy in the post modern era and also proposes to critique globalization in the light of the cultural logic of late capitalism by analyzing the different stages of economic growth since independence.

Key words: Globalization, Consumerism, Indian economy, Postmodernism

1. INTRODUCTION

India was under colonial rule for almost two hundred years. Prior to that, India had limited exposure to the West and with the rest of the world. In the Mughal era, India was completely oblivious to the renaissance in the West and the upcoming Industrial revolution. Trade was limited to the Middle Eastern countries and the Eastern countries. All in all, these societies were aloof as well from the upcoming surge of revolution.

Despite that, the Indian economy was well off due to its thriving trade and abundance of natural resources. It is then but natural that India decided to swerve away from British regime's type of government and adopted a completely different form of governance. The then policymakers were hardliners of the socialist regime and wanted to incorporate a socialist government structure. However, after a lot of urging from Dr. Ambedkar, India adopted a pseudo-socialist structure. He argued that economic systems should be left free to adjust to the changing demands of the people and the Assembly should not bind the people to any one type economic system forever.

Shashi Tharoor opines in *An Era of Darkness: The British Empire in India* that global GDP of India was around 3 percentage when the country attained its independence from the British in 1947 (Tharoor, 2016). In relative terms, Indian economy moved in a very slow pace till 1991 when the county opened its market for liberal trade. As far as the Indian economy is concerned, it is agrarian in nature The economic structure of India is mixed in nature with a blend of socialist and capitalist economic policies. Indian economy is not devoid of the Western influence.

India was heavily influenced by the Soviet Union's model of governance. However, it followed a less extreme path. The Indian state implemented central planning with myriad controls over prices and quantities to achieve a "socialist pattern of society."All this gave birth to "Licence Raj" in India, which had tremendous implications on the lives of Indian citizens.

2. LIFE BEFORE 1991- LICENCE RAJ ERA

All this gave birth to "License Raj" in India, which had tremendous implications on the lives of Indian citizens. Life under License Raj was characterised by scarcity of resources. The choices people had available to them in their day-to-day life were very limited. For example, cars were available in one colour, and only two to three brands of cars or scooters existed in the market to choose from.

License Raj gave the bureaucracy immense control over the industrial and production market. Several banks and companies were nationalised in the "interest of the nation" (as justified by the then Prime Minister Indira Gandhi). License Raj basically meant that everyone had to get a license to get anything done anywhere in the country. The government fixed the industrial output of the privately held industries as well. Should the industry want to expand, it had to acquire a license to do the same. Businesses had to have a license to lay off workers and even needed one to shut down. Licenses thus became an essential commodity for development. Licenses had a price and the extreme level of bureaucracy one had to go through to get one didn't make things any easier. Nandan Nelakani opines in *Imagining India : Ideas for the New Century* that India as a nation has moved from Government control licence raj to a private sector lead wealth creation model. The country started to recognize the role of entrepreneurs in the national building agenda (Nelakani, 2008).

Another extreme socialist policy (which can still be sensed today) is the virtual shutdown of imports. After almost 200 years of British regime, Indians strongly believed they needed to be 'swadesi' (meaning, indigenous) and this emphasis was thoroughly evident in their economic schemes. Exorbitant tariffs were levied on imports. For example, the import tariff for cars was around 125% in 1960. India in 1985 had the highest level of tariffs in the world. Nominal tariff rates as percentage of values in 1985 were: 146.4 percent for intermediate goods; 107.3 percent for capital goods; 140.9 percent for consumer goods and 137.7 percent on manufacturing goods.

Policymakers took careful measures to ensure that globalization didn't penetrate India. India had the best relations with USSR, and this in turn led to a lot of turmoil post 1991 (after the collapse of Soviet Union). However, we're getting ahead of ourselves now. Despite vehement opposition in the late 1980s to the socialist and pseudo-totalitarian schemes, little was being done. India's growth rate had slowed down tremendously.

The above data shows how till the 80s, the growth rate was slower than Pakistan. The period from 1980-1988 shows improvement due to the realisation of the policymakers that "little change" was needed to reduce the fiscal deficit.A raft of measures, albeit of little to moderate significance were taken in that period.Several export incentives were introduced or expanded, especially after 1985. An exampleof incentives includes the replenishment licenses (REP) which were given to exporters and could be freely traded on the

Comparative Growth Rates of Developing Economies Average Annual Rates 1960-1988

Country	*Growth Rate of Industrial Production*		*GDP*	
	1960-1980	*1980-1988*	*1960-1980*	*1980-1988*
India	4.6	7.6	3.5	5.4
South Korea	15.2	12.6	8.8	10.1
Taiwan	12.8	7.2	9.6	7.4
Singapore	12.1	4.5	9.2	6.9
Pakistan	8.0	7.2	4.4	6.3
Thailand	10.3	6.6	7.4	6.5
Hong Kong	10.3	7.5	9.9	7.4
Indonesia	8.9	5.1	5.9	5.7

market; they directly helped relax the constraints on some imports. There was also relaxation of industrial controls, which included foreign exchange availability consideration, and removing extra layers of regulation on import.

Towards the end of 1980s, despite these measures, external debt was rising. While the borrowing helped the economy grow, it was also pushing us steadily towards a crash. As with external borrowing, high current expenditures within the country proved unsustainable. They manifested themselves in extremely large fiscal deficits. Gurucharan Das has rightly termed the period from 1966-1991 as the lost generation because of the slow growth rate during the Indira Gandhi tenure. The economic policies were counterproductive to the nation due to the untimely declaration of the Emergency in1975. Gurucharan argues in his book, *India Unbound* that the politics of a nation directly influences the economic growth of the country. Unfortunately the policies failed to alleviate the poverty of the nation (Gurucharan, 2000).

3. LIFE POST 1991- LIBERALISATION ERA

Towards the end of 1980s, India was facing a Balance of Payments (BoP) crisis, due tounsustainable borrowing and high expenditure. The Current Account Deficit (3.5 percent) in 1990-91 massively weakened the ability to finance deficit.

The following factors were the main reasons for the change in economic policy in1991:

1) Disintegration of the USSR (the Soviet Union was India's biggest allies, and a lot of deals fell through due to its weakening and eventual disintegration)
2) Iraq - Kuwait War (Crude oil prices rose by 133% and these two countries were India's major sources of Oil imports)
3) Political Instability (India saw 3 different coalition governments and prime ministers change from 1989 to 1991)
4) Rise in external debt: India's external debt increased from Rs. 194.70 crore (USD 23.50 billion) in 1980-81 to Rs. 459.61 crore (USD 37.50 billion) in 1985 – 86. It went up to Rs.1,003.76 crore (USD 58.63 billion) in 1989-90. In 1990-91, it was Rs. 1,229.50 crore (USD 63.40 billion).

The external debt was directly transferred into the government's deficit payment. Thus, the balance of payments situation came to the verge of collapse in 1991, mainly because the current account deficits were mainly financed by borrowing from abroad. The economic situation of India was critical; the government was close to default. With India's foreign exchange reserves at USD 1.2 billion in January 1991 and depleted by half by June, an amount barely enough to cover roughly three weeks of essential imports, India was only weeks way from defaulting on its external balance of payment obligations.

While critiquing the distributional effects of globalization in developing countries, P.K Goldberg says: "Although India underwent a drastic trade liberalization reform starting in 1991, the average tariff in manufacturing was over 30 percent in 1999. Thus, there remains substantial scope for further tariff and NTB reductions and trade policy is likely to continue to be an important component of globalization at least in some of the lower income developing countries." (P. K. Goldberg and N. Pacvnik, 2007).

Then Prime Minister P V Narismha Rao appointed Dr. Manmohan Singh as the Finance Minister. Had it not been for the government's proper intervention, India would've collapsed like the Greek fiasco of 2015.The government had 4 options laid out ahead of itself (summarised in the table next page). Out of the 4 options, Dr. Singh chose the path of devaluation.

In 1991, India still had a fixed exchange rate system, where the rupee was pegged to the value of a basket of currencies of major trading partners. In July of 1991 the Indian government devalued the rupee by between 18 and 19 percent. The government also changed its trade policy from its highly restrictive form to a system of freely tradable EXIM scrips which allowed exporters to import 30% of the value of their exports.

Options	*Opposition*	*Outcome*	*Remarks*
Default	No past history; bargaining power would decrease	Not a serious option – but helped to push case for devaluation	Devaluation was politically sensitive but Parliament was not involved in the decision; even Cabinet largely bypassed.
Seeking private funds	Not realistic – overnight rollover of debt; NRIs continued withdrawing funds	Attempted throughout 1990 but proved insufficient; market confidence not restored	
Use of gold reserves	Politically sensitive; only partially successful in previous attempt	Gold shipped to Bank of England to increase credibility	
Devaluation	Past experience poor; opposition from President and cabinet; fear of inflation	Two-step devaluation to 'test the waters'	

Source: Arunabha Ghosh. 2010

However the picture of developed India is unacceptable for Nobel laureate, Amatya Sen who argues in *An Uncertain Glory: India and its contradictions* that the economic policy makers in the post 1991 period have marginalized the downtrodden by favoring the privileged class. Sen does not rely on the standard indicators of economic growth but pays much attention to the social equality. According to him, economic policy should enhance social justice and there by improve the living standard of the citizens (Dreze and Amatya, 2013).

Understanding the link between globalization and postmodernism is very relevant for comprehending the complex hegemonical, economic structures in the 21st century. Hence, *O. Lizardo and M. Strand* comment, "The shifting hegemony of this conceptualization of schemes also explains why different ways of conceptualizing (post) modernity have been transposed and transmuted to the understanding of globalization." (O. Lizardio and M. Strand, 2009).

4. CONCLUSION

While critiquing globalization in the light of postmodernism, Fredric Jameson opines, "The argument for a certain authenticity in these otherwise patently ideological productions depends on the prior proposition that what we have been calling postmodern or multinational space is not merely a cultural ideology or fantasy but has genuine historical and socioeconomic reality as a third great original expansion of capitalism around the globe after the earlier expansions of the national market and the older imperialist system, which each had their own cultural specificity and generated new types of space appropriate to their dynamics." (Jameson, 1991) His argument has brought to light the influence of capitalist economy over the third world countries. Indian economy is also influenced by the postmodern, global economic structure. The West continues to dominate the East through the neo-colonial, global economic policies.

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