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Globalization and economic growth: Indian experience

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Abstract
The interest in and amount of research on the relationships between globalization, economic growth has been increasing in recent years. The rational for globalization is that free flows of trade, finance and information will produce best outcomes for growth and human welfare. The primary objective has to be the overall acceleration of economic growth along with rapid elimination of poverty. Studies show that globalization affects the economic growth of a country through many different channels- international trade, financial integration, international labour flows and technical change. Our country has yielded many significant benefits; the growth in GDP, FDI, foreign exchange reserves and trade openness. This paper tries to find econometrically the impact of various factors of globalization on India's economic growth as well as the dynamics of the relationship between globalization and economic growth in India.

Keywords: Globalization, development, poverty, trade openness, GDP

1. Introduction

Globalization is a mega trend which significantly shapes contemporary economy and society. Globalization has many dimensions and has a variety of social, political and economic implications. Globalization is the most commonly understood as a unitary process inclusive of many sub-processes (such as increased economic interdependence, increased cultural influence, rapid advances of information technology, and novel governance and geopolitical challenges)that are increasingly binding people and the biosphere more tightly into one global system

Advocates of globalization believe that policy reforms so far has improved economic growth and performance significantly while critics argue that the globalization have had negative effects on future growth and performance of the economy. They are also of the view that globalization has worsened inequalities across and within the countries, environmental degradation and vulnerability of the poor nations have increased and that developed countries have established dominance over developing countries.

The policy reforms undertaken since 1991 In India had the objectives to make the entire economy more efficient, technologically up-to-date and competitive. This was done with the expectation that efficiency improvement, technological up-gradation and competitiveness would ensure Indian economy to achieve rapid growth. Capital account liberalization, interest rate set by the market and flexible exchange regimes created the framework for liberalization. Industries previously closed to opened to FDI, state properties were privatized, procedures were simplified, and incentives and concession (for corporate) were introduced. The world witnessed the dismantling of state regulation, liberalization of export –import laws, delicensing, flexible laws including labour laws, corporate tax reductions, increased subsidies to corporates, hegemonic control of employers in hiring, firing outsourcing and so on. Globalisation in India came through economic reforms.

Some of the recent initiatives taken to further liberalize the FDI regime, inter alias, include opening up of sectors such as Insurance, development of integrated townships (upto 100%); defence industry, tea plantation (upto 100% subject to divestment of 26% within five years to FDI); enhancement of FDI limits in private sector banking, allowing FDI up to 100% under the automatic route for most manufacturing activities in SEZs; opening up B2B e-commerce; Internet Service Providers (ISPs) without Gateways; electronic mail and voice mail to 100% foreign investment subject to 26% divestment condition; etc.

Therefore, wide-ranging financial sector reforms in the banking, capital markets, and insurance sectors, including the deregulation of interest rates, strong regulation and supervisory systems, and the introduction of foreign/private sector competition have already been executed.

The interest in and amount of research on the relationships between globalization, economic growth has been increasing in recent years. The rational for globalization is that free flows of trade, finance and information will produce best outcomes for growth and human welfare. The primary objective has to be the overall acceleration of economic growth along with rapid elimination of poverty. After globalization index came out, effects of globalization on the economic growth of a country was started to be displayed more concretely. Studies show that globalization affects the economic growth of a country through many different channels- international trade, financial integration, international labour flows and technical change. The positive development in these channels, which comes out with globalization, increases the economic growth of a country.

2. Review of Literature

Several studies have revealed many issues concerning the contribution of globalization to the economic growth of less developed countries (LDCs). The effects of globalization on growth have also been frequently analyzed with various data, measures and methods.

Used an index of capital account openness to show that more developing countries have suffered from globalization while found no effect of capital account openness on economic growth. With respect to foreign direct investment there is evidence of a positive growth-effect in countries which are sufficiently rich and a negative one in low income countries found that an increase in trade flows and foreign direct investment resulted in higher growth rates. analyzed the relationship between economic performance and trade openness observes that economic liberalization, technological changes, competition in both labor and product markets contributed to economic failure, weakening of institutions and social support systems, and erosion of established identities and values.

Reported a strong relationship between trade and growth. With respect to FDI, provided evidence of a positive growth-effect – given a minimum threshold stock of human capital. Concludes that integration combined with other factors, like the maintenance of macroeconomic stability, the development of human capital, high investment ratios, infrastructure and institutions, can enhance economic growth

Have stated that globalization presents new possibilities for eliminating global poverty and globalization can benefit poor countries directly and indirectly through cultural, social, scientific and technological exchanges as well as trade and finance. Some very important low-income countries like India and China have used globalization to their advantage and have succeeded in achieving enviable economic growth rate and thus reducing some international inequalities. Studied the effects of globalization on poor developing countries and noted that over half of them that experienced globalization gained large increases in trade and considerable reduction in tariffs

Analyzed the relation between globalization and economic growth with panel data analysis technique by using the data of 123 countries from years 1970 to 2000. He found out that globalization affects the economic growth in a positive way. Analyzed the globalization's effects on economic growth by using the Pakistan's data from years 1960 to 2006. Results of the analysis show that globalization affects Pakistan's macro economy performance in a positive way

Found out that globalization, thanks to the trade gap and direct foreign investment, affects many region's economic growth in a positive way. Analyzed the causality connection between economic, social and political globalization and economic growth in Turkey between the years 1970 and 2008. Analyzed the connection between globalization and economic growth for Singapore, Malaysia, Thailand, India and Philippines in the extent of Solow growth model. Analyzed the connection between globalization and economic growth in Romania between the years 1972 and 2006 found out that in middle and long terms globalization would maximize the economic growth.

Analyzed the connection between economic growth, globalization and trade in the U.S.A between the years 1995 and 2008, found out that globalization increases or provokes the economic growth. Found out that there is a mutual causality connection between globalization and economic growth by using the Granger causality test. Found out that globalization has positive effects on developing countries' (like Bangladesh's) trade and economic growth. Found out that economic globalization effects economic growth in a positive way but social and political globalization affects it in negative ways in ASEAN countries between the years 1970 and 2008

3. Objectives and Methodology

Against this background, this paper tries to contribute to the literature by investigating econometrically the existence (or not) of a long - run relationship between globalization and economic growth in India. Macro-level quantitative and qualitative analysis is used in order to understand the trends. Secondary data on different important indicators is collected for the period of 15 years from 2001-02 to 2014-15 from secondary source like Handbook of Statistics on the Indian economy, RBI bulletin, various issues of Economic Survey, Government of India, various issues of Department of Industrial Policy and Promotion (DIPP), Secretariat of Industrial Assistance (SIA), Central Statistical Organization (CSO), online data base of Indian Economy, journals, articles, newspapers, etc. In order to study the significance of association between of Foreign Investment, Trade Openness & GDP statistical techniques such as correlation and regression have been used. The relationship between globalization and economic growth in India is hereby investigated by applying regression analysis for the study. Trade openness are used to measure the degree of integration of Indian economy. Openness and the financial integration is the ratio of sum of capital inflow and capital outflow to the GDP. The latter measure represents financial integration and the international interdependence is represented by the first measure. For capital inflow, we use the sum of foreign direct investment and portfolio investment in India.

The work estimates one model i.e. growth. The model can be expressed in its functional form as

$$GDP = F(FI, TO) \quad \text{----------} \quad 1$$

For estimation purpose, equation 1 is recast in terms of logarithms as

In. GDP = α0+ α1 In.FI+ α2 In.TO + Ut ---------- 2

Where:

GDP =Gross Domestic Product (is used as the proxy for economic growth)

FI= Foreign Investment

TO= Trade Openness (the ratio of the sum of imports (M) and exports (X) to GDP)

Ut =Error term

Table 1

Year	Log GDP	Log Trade Openness	Log Foreign Investment
2001-02	2.693665	2.285152	3.882809
2002-03	2.719141	2.338257	3.733357
2003-04	2.791248	2.361009	4.182984
2004-05	2.858290	2.431862	4.168409
2005-06	2.921280	2.480567	4.276162
2006-07	2.977321	2.517037	4.417488
2007-08	3.092966	2.524396	4.741710
2008-09	3.087816	2.601484	4.429041
2009-10	3.135250	2.534178	4.824730
2010-11	3.236048	2.560420	4.772827
2011-12	3.265530	2.634799	4.80187
2012-13	3.263830	2.634416	4.791550
2013-14	3.273038	2.610415	4.613376
2014-15	3.311647	2.568072	4.930591

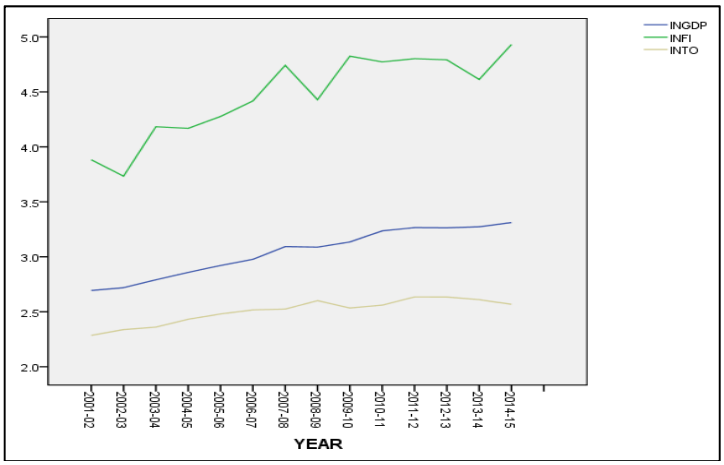

Fig 1

Table 2 presents descriptive statistics for the variables used in our estimate. Summary statistics in Table 2 include the mean, standard deviation, maximum & minimum value for period 2001-02 to 2014-15. These values determine the statistical behavior of variables. The relatively smaller figure of SD indicates that the data dispersion in the series is quite small. The finding suggests that almost all independent variables included in the sample were having smaller dispersion level of different independent variables under our study across time series. Table 3 represents correlation matrix of the variables used in the study. According to correlation matrix, trade openness and foreign investment indices, explanatory variables of our study are positively correlated with economic growth.

Table 2

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
INGDP	14	2.693665	3.311647	3.04479071E0	.217884566
INFI	14	3.733357	4.930591	4.46906457E0	.376253219
INTO	14	2.285152	2.634799	2.50586171E0	.112743818
Valid N (listwise)	14				

Table 3

Correlations				
		INGDP	INFI	INTO
INGDP	Pearson Correlation	1	.941**	.940**
	Sig. (2-tailed)		.000	.000
	N	14	14	14
INFI	Pearson Correlation	.941**	1	.864**
	Sig. (2-tailed)	.000		.000
	N	14	14	14
INTO	Pearson Correlation	.940**	.864**	1
	Sig. (2-tailed)	.000	.000	
	N	14	14	14
**. Correlation is significant at the 0.01 level (2-tailed).				

Table 4 shows that the coefficient of determination (R2) is as high as 0.949. it suggests that 94.9% of the total variation in GDP is explained by the foreign investment & trade openness together.

Table 4

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.974[a]	.949	.939	.053594242
a. Predictors: (Constant), INTO, INFI				

The results obtained from the fixed effects are shown in Table 5 and 6. The coefficient of foreign investment index is significant and positive as expected. That is, there is an increase 0.296 unit in the value of GDP for every increase of one unit in the value of foreign investment index. Similarly, trade openness is positively and significantly associated with GDP. There is an increase approximately 0.962 unit in the value of GDP for every increase of one unit in the value of trade openness index. Also, F statistic is statistically significant at far beyond the 1 percent level, attesting to the overall strength of the model. F-statistic for the model also shows that the economic growth series and its determinants are linearly related. Indeed, the overall explanatory power of the models are high. Thus, the conclusions drawn from the analysis are expected to be reliable.

Table 5

Model	Unstandardized Coefficients			Standardized Coefficients	T	Sig.
	B		Std. Error	Beta		
1	(Constant)	-.689	.395		-1.742	.109
	INFI	.296	.079	.511	3.764	.003
	INTO	.962	.262	.498	3.670	.004
Dependent Variable: INGDP						

Table 6

ANOVA[b]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.586	2	.293	101.931	.000[a]
	Residual	.032	11	.003		
	Total	.617	13			
a. Predictors: (Constant), INTO, INFI						
b. Dependent Variable: INGDP						

4. Conclusion

The paper explores the impact of Globalization on economic growth of India for the period 2001-02 to 2014-15. In order to access the impact of globalization empirically, we consider trade openness, foreign investment as macro-economic independent variables expected to influence the economic growth in the regression framework. The regression results show that foreign investment & trade openness have significant positive impact on economic growth via GDP growth. Main findings of this paper is that India's economic growth has received a strong impetus in post reform era. This increased economic growth is mainly and directly a result of free trade movement that started after new economic reforms.

In case of Indian economy, we have ascended a higher growth path; poverty has been reduced; the external sector is more than comfortable; industrial growth has been restored; and all this has been achieved with financial stability in the country The rapid growth of the economy made India an attractive destination for capital inflows. High volumes of FDI took place in electronics and hardware, automobiles, pharmaceuticals, cement, metallurgical and other manufacturing industries. Earlier, Indian industry has lived long under the shelter of high tariff walls and all kinds of restriction on imports. But, now they have improved their competition strength. They are taking benefits of liberal imports regime and restructure their business strategies. Indian companies have entered into foreign collaborations and set up joint ventures abroad. The trends of mergers and acquisitions in India have changed over the years. There has been several multi-billion dollar acquisitions by Indian companies wanting to build global scale and compete in the global markets. India, being a cost effective and labor intensive economy, has benefited immensely from outsourcing of work from developed countries, and a strong manufacturing and export oriented industrial framework.

The strong foreign demand for our services especially in software has helped services front to grow hence a substantial contributor to India's balance of payment. The rise in the service sector's share in GDP marks a structural shift in the Indian economy and takes it closer to the fundamentals of a developed economy. Even more important, Indians in all walks of life have found a new level of self-confidence. Within the last few years, India has achieved some remarkable transformation successes; economic, technological, and developmental transformation.

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