Economics from the Ground Up

The impact of globalisation on a developing country: India case study

Fast facts about India

- Location: Southern Asia, covering tropical to temperate regions
- Politics: World's largest democracy (former British colony, gained independence 1947)
- Population: World's second most populated country: 1.24 billion (2011) (China: 1.34 billion, 2011)
- Currency: Rupee (US$1 = INR 54, November 2012)
- Human Development Index: 0.547 (2011) (ranked 134 out of 187 countries)
- GDP : US$1.85 trillion (2011) (China: US$7.3 trillion)
- Annual GDP growth rate: 7% (2011)
- GDP per capita: $838 (2011) (adjusted for inflation – constant 2000 $US) (China: $2540)
- Consumer Price Inflation: 9% annual (2011)

Until the early 1990s, the impact of globalisation on the Indian economy was very limited. This was because, until then, the Indian economy had very high barriers to trade and investment. Since then, changes to economic policies, including the liberalisation of trade and investment, have allowed India's increased integration into the global economy. India is now one of the so-called "BRICs" nations – Brazil, Russia, India and China – which are often considered together to represent the emerging key players in the global economy.

Study tip/myth buster

The economic importance of India has been somewhat overshadowed by the other great economic and population powerhouse of Asia - China. One way to consider the effects of globalisation on India is to look at how its experience has been somewhat different to that of China, a country that has also been enormously impacted by globalisation. Throughout this section, some comparisons and contrasts will be made between China and India's experience of globalisation.

India before economic liberalisation and globalisation

Following India's independence from Britain in 1947, the economy was highly regulated, with a large amount of public ownership and high levels of protectionism. The post-colonial government saw international trade and engagement with the rest of the world, especially advanced western nations, as potentially detrimental to India. The government decided to model itself on a planned economy alongside capitalism – some private ownership of resources, with aspects of the economy under the control of government. They believed that high levels of protectionism would help India develop a thriving manufacturing sector. Consequently, from the 1950s, India pursued a policy of "self-reliance", by maintaining a large public sector and high tariffs on imports.

Government policy limitations on the economy at that time included the points listed below.

- **Licensing system:** States and firms had to apply for licenses to set up industries. Licensing decisions were based on where the central government wanted development to occur, not on an efficient allocation of resources. Government, rather than the market, decided what would be produced, where and how. This included quantities produced, which were determined by licensing, rather than supply and demand (or the price mechanism).
- **High tariffs:** The government used high tariffs to close the Indian economy off from trade. This reduced the amount of foreign goods that could enter the Indian economy. By 1985, India's tariff rates were incredibly high. The lowest tariff was on the import of capital goods, which were taxed at 107%. The highest was on intermediate goods, taxed at 146%. This meant that, for example, if an Indian manufacturer wanted to import products to be transformed into something else in India, such as tins or packaging, the tariff would be one and half times the price of the imported product.
  The government promoted a system of **import substitution,** encouraging local Indian companies to produce what was needed, rather than import it. It was hoped this would drive development by creating internal markets.
- **Limits on business size:** The government reserved certain areas of the economy for small firms only. There were 800 products that could only be produced by small companies – those with only one plant and capital investment below a certain value.
- **Import quotas and bans:** The government controlled imports via non-tariff barriers such as quotas and the issuing of import licences. Bans on certain imports also meant many industries were restricted. Some businesses could not import components and inputs required for production processes, or technology and machinery required to innovate production and improve efficiency. If you were a manufacturer trying to import the latest machinery and technology from Germany, for example, there was an enormous amount of

Case Study of India and globalisation. For the exclusive use of purchasers of 'Economics from the ground up (1st edition)' Refer to page 350 of the text.