GLOBALIZATION AND ITS IMPACT ON INDIAN ECONOMY

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Received: 13 December 2013, Revised and Accepted: 28 December 2013

ABSTRACT

India gained highly from the LPG model as its GDP increased to 9.7% in 2007-2008. In respect of market capitalization, India ranks fourth in the world. But even after globalization, condition of agriculture has not improved. The share of agriculture in the GDP is only 17%. The number of landless families has increased and farmers are still committing suicide. But seeing the positive effects of globalization, it can be said that very soon India will overcome these hurdles too and march strongly on its path of development. The lesson of recent experience is that a country must carefully choose a combination of policies that best enables it to take the opportunity - while avoiding the pitfalls. For over a century the United States has been the largest economy in the world but major developments have taken place in the world Economy since then, leading to the shift of focus from the US and the rich countries of Europe to the two Asian giants- India and China. Economics experts and various studies conducted across the globe envisage India and China to rule the world in the 21st century. India, which is now the fourth largest economy in terms of purchasing power parity, may overtake Japan and become third major economic power within 10 years. To conclude we can say that the modernization that we see around us in our daily life is a contribution of Globalization. Globalization has both positive and as well as negative impacts on various sectors of Indian Economy. So Globalization has taken us a long way from 1991 which has resultant in the advancement of our country.

Keywords: Economy, GDP, globalization, Indian policies, liberalization.

INTRODUCTION

Globalization (or globalization) describes a process by which regional economies, societies, and cultures become integrated through a global network of communication, transportation, and trade. The term is sometimes used to refer specifically to economic globalization: the integration of national economies into the international economy through trade, foreign direct investment, capital flows, migration, and the spread of technology. Globalization as a spatial integration in the sphere of social relations when he said "Globalization can be defined as the intensification of worldwide social relations which link distant locations in such a way that local happenings are shaped by events occurring many miles away and vice – versa." Globalization generally means integrating economy of our nation with the world economy. The economic changes initiated have had a dramatic effect on the overall growth of the economy. It also heralded the integration of the Indian economy into the global economy. The Indian economy was in major crisis in 1991 when foreign currency reserves went down to $1 billion. Globalization had its impact on various sectors including Agricultural, Industrial, Financial, Health sector and many others. It was only after the LPG policy i.e. Liberalization, Privatization and Globalization launched by the then Finance Minister Man Mohan Singh that India saw its development in various sectors.

Advent of New Economic Policy

After suffering a huge financial and economic crisis Dr. Man Mohan Singh brought a new policy which is known as Liberalization, Privatization and Globalization Policy (LPG Policy) also known as New Economic Policy,1991 as it was a measure to come out of the crisis that was going on at that time. The following measures were taken to liberalize and globalize the economy: Devaluation: To solve the balance of payment problem Indian currency were devaluated by 18 to19%.

Disinvestment: To make the LPG model smooth many of the public sectors were sold to the private sector.

Allowing Foreign Direct Investment (FDI): FDI were allowed in a wide range of sectors such asInsurance(26%),defense industries(26%) etc.

NRI Scheme: The facilities which were available to foreign investors were also given to NRIs.

The New Economic Policy (NEP-1991) introduced changes in the areas of trade policies, monetary & financial policies, fiscal & budgetary policies, and pricing & institutional reforms. The salient features of NEP-1991 are (i) liberalization (internal and external), (ii) extending privatization, (iii) redirecting scarce Public Sector Resources to Areas where the private sector is unlikely to enter, (iv) globalization of economy, and (v) market friendly state.

Consequences of Globalization:

The implications of globalisation for a national economy are many. Globalisation has intensified interdependence and competition between economies in the world market. This is reflected in Interdependence in regard to trading in goods and services and in movement of capital. As a result domestic economic developments are not determined entirely by domestic policies and market conditions. Rather, they are influenced by both domestic and international policies and economic conditions. It is thus clear that a globalising economy, while formulating and evaluating its domestic policy cannot afford to ignore the possible actions and reactions of policies and developments in the rest of the world. This constrained the policy option available to the government which implies loss of policy autonomy to some extent, in decision-making at the national level. Now for Further analysis we take up Impact of Globalization on various sector of Indian Economy.

Impact of Globalization on Agricultural Sector

Agricultural Sector is the mainstay of the rural Indian economy around which socio-economic privileges and deprivations revolve and any change in its structure is likely to have a corresponding impact on the existing pattern of Social equity. The liberalization of India’s economy was adopted by India in 1991. Facing a severe economic crisis, India approached the IMF for a loan, and the IMF granted what is called a ‘structural adjustment’ loan, which is a loan with certain conditions attached which relate to a structural change in the economy. Essentially, the reforms sought to gradually phase...
out of the control of the market (liberalization), privatize public sector organizations (privatization), and reduce export subsidies and import barriers to enable free trade (globalization).

Globalization has helped in:

- Raising living standards,
- Alleviating poverty,
- Assuring food security,
- Generating buoyant market for expansion of industry and services, and
- Making substantial contribution to the national economic growth.

Impact of Globalization on Industrial Sector:

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.

Globalization 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. 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 negative Effects of Globalization on Indian Industry are that with the coming of technology the number of labor required decreased and this resulted in many people being removed from their jobs. This happened mainly in the pharmaceutical, chemical, manufacturing, and cement industries.

Impact on Financial Sector

Reforms of the financial sector constitute the most important component of India’s programme towards economic liberalization. The recent economic liberalization measures have opened the door to foreign competitors to enter into our domestic market. Innovation has become a must for survival. Financial intermediaries have come out of their traditional approach and they are ready to assume more credit risks. As a consequence, many innovations have taken place in the global financial sectors which have its own impact on the domestic sector also. The emergence of various financial institutions and regulatory bodies have transformed the financial services sector from being a conservative industry to a very dynamic one. In this process this sector is facing a number of challenges. In this changed context, the financial services industry in India has to play a very positive and dynamic role in the years to come by offering many innovative products to suit the varied requirements of the millions of prospective investors spread throughout the country. Reforms of the financial sector constitute the most important component of India’s programme towards economic liberalization. Growth in financial services (comprising banking, insurance, real estate and business services), after dipping to 5.6% in 2003-04 bounced back to 8.7% in 2004-05 and 10.9% in 2005-06. The momentum has been maintained with a growth of 11.1% in 2006-07. Because of Globalization, the financial services industry is in a period of transition. Market shifts, competition, and technological developments are ushering in unprecedented changes in the global financial services industry.

Impact on Export and Import

India’s Export and Import in the year 2001-02 was to the extent of 32,572 and 38,362 million respectively. Many Indian companies have started becoming respectable players in the International scene. Agriculture exports account for about 13 to 18% of total annual of annual export of the country. In 2000-01 Agricultural products valued at more than US $ 6 billion were exported from the country 23% of which was contributed by the marine products alone. Marine products in recent years have emerged as the single largest contributor to the total agricultural export from the country. accounting for over one fifth of the total agricultural exports. Cereals (mostly basmati rice and non-basmati rice), oil seeds, tea and coffee are the other prominent products each of which accounts for nearly 5 to 10% of the countries total agricultural exports.

Advantages of Globalization

- There is an International market for companies and for consumers there is a wider range of products to choose from.
- Increase in flow of investments from developed countries to developing countries, which can be used for economic reconstruction.
- Greater and faster flow of information between countries and greater cultural interaction has helped to overcome cultural barriers.
- Technological development has resulted in reverse brain drain in developing countries.

Demerits of Globalization (Challenges)

- The outsourcing of jobs to developing countries has resulted in loss of jobs in developed countries.
- There is a greater threat of spread of communicable diseases.
- There is an underlying threat of multinational corporations with immense power ruling the globe.
- For smaller developing nations at the receiving end, it could indirectly lead to a subtle form of colonization.

- The number of rural landless families increased from 35% in 1987 to 45% in 1999, further to 55% in 2005. The farmers are destined to die of starvation or suicide.

A Comparison with Other Developing Countries

Consider global trade – India’s share of world merchandise exports increased from 0.5% to 0.7% over the past 20 years. Over the same period China’s share has tripled to almost 4%.

India’s share of global trade is similar to that of the Philippines an economy 6 times smaller according to IMF estimates.

Over the past decade FDI flows into India have averaged around 0.5% of GDP against 5% for China and 5.5% for Brazil. FDI inflows to China now exceed US $ 50 billion annually. It is only US $ 4 billion in the case of India.

Indian economy had experienced major policy changes in early 1990s. The new economic reform, popularly known as, Liberalization, Privatization and Globalization (LPG model) aimed at making the Indian economy as fastest growing economy and globally competitive. The series of reforms undertaken with respect to industrial sector, trade as well as financial sector aimed at making the economy more efficient. With the onset of reforms to liberalize the Indian economy in July of 1991, a new chapter has dawned for India and her billion plus population. This period of economic transition has had a tremendous impact on the overall economic development of almost all major sectors of the economy, and its effects over the last decade can hardly be overestimated. Besides, it also marks the advent of the real integration of the Indian economy into the global economy.
This era of reforms has also ushered in a remarkable change in the Indian mindset, as it deviates from the traditional values held since Independence in 1947, such as self-reliance and socialist policies of economic development, which had concentrated on restrictive forms of governance, resulted in the isolation, overall backwardness and inefficiency of the economy, amongst a host of other problems. This, despite the fact that India has always had the potential to be on the fast track to prosperity. Now that India is in the process of restructuring her economy, with aspirations of emerging as a global player in the near future, the present decision in the need to speed up her economic development is even more imperative. And having witnessed the positive role that Foreign Direct Investment (FDI) has played in the rapid economic growth of most of the Southeast Asian countries and most notably China, India has embarked on an ambitious plan to emulate the successes of her neighbors to the east and is trying to sell herself as a safe and profitable destination for FDI.

Globalization has many meanings depending on the context and on the person who is talking about. Though the precise definition of globalization is still unavailable a few definitions are worth viewing. Guy Brainbant: says that the process of globalization not only includes opening up of world trade, development of advanced means of communication, internationalization of financial markets, growing importance of MNCs, population migrations and more generally increased mobility of persons, goods, capital, data and ideas but also infections, diseases and pollution. The term globalization refers to the integration of nation economies into a world economy and the development of financial flows, as also through mutual exchange of technology and knowledge. Ideally, it also contains free inter-country movement of labor. In context to India, this implies opening up the economy to foreign direct investment by providing facilities to foreign companies to invest in different fields of economic activity in India, removing constraints and obstacles to the entry of MNCs in India allowing Indian companies to enter into foreign collaborations and also encouraging them to set up joint ventures abroad; carrying out massive import liberalization programs by switching over from quantitative restrictions to tariffs and import duties, therefore globalization has been identified with the policy reforms of 1991 in India. The Important Reform Measures (Step Towards liberalization privatization and Globalization)

Indian economy was in deep crisis in July 1991, when foreign currency reserves had plummeted to almost $1 billion; Inflation had soared to an annual rate of 17 percent; fiscal deficit was very high and had become unsustainable; foreign investors and NRIs had lost confidence in Indian Economy. Capital was flying out of the country and we were close to defaulting on loans. Along with these bottlenecks at home, many unforeseen changes swept the economies of nations in Western and Eastern Europe, South East Asia, Latin America and elsewhere, around the same time. These were the economic compulsions at home and abroad, which necessitated prior approval for capacity additions and there was a need to speed up the liberalization process. At the present, we can also say about the tale of two Indias: We have the best of times; we have the worst of times. There is sparkling prosperity, there is stinking poverty. We have dazzling five star hotels side by side with darkened ill-starred hovels. We have everything by globalization, we have nothing by globalization. Though some economic reforms were introduced by the Rajiv Gandhi government (1985-89), it was the Narasimha Rao Government that gave a definite shape and start to the new economic reforms of globalization in India. Presenting the 1991-92 Budget, Finance Minister Manmohan Singh said: After four decades of planning for industrialization, we have now reached a stage where we should welcome, rather fear, foreign investment. Direct foreign investment would provide access to capital, technology and market. In the Memorandum of Economic Policies dated August 27, 1991 to the IMF, the Finance Minister submitted in the concluding paragraph: "The Government of India believes that the policies set forth in the Memorandum are adequate to achieve the objectives of the program, but will take any additional measures appropriate for this purpose. In addition, the Government will consult with the Fund on the adoption of any measures that may be appropriate in accordance with the policies of the Fund on such consultations. The Government of India affirmed to implement the economic reforms in consultation with the international bank and in accordance of its policies. Successive coalition governments from 1996 to 2004 led by the Janata Dal and BJP, adopted faithfully the economic policy of liberalization. With Manmohan Singh returned to power as the Prime Minister in 2004, the economic policy initiated by him has become the lodestar of the fiscal outlook of the government.
India will cross the $200 billion mark soon. The cumulative FDI inflows from 1991 to September 2006 were Rs 1, 81,566 crores (US $43.29 billion). The sectors attracting highest FDI inflows are electrical equipments including computer software and electronics (18 per cent), service sector (13 per cent), telecommunication (10 per cent), transportation industry (nine per cent), etc. In the inflow of FDI, India has surpassed South Korea to become the fourth largest recipient. India controls at the present 45 per cent of the global outsourcing market with an estimated income of $50 billion.

In respect of market capitalization (which takes into account the market value of a quoted company by multiplying its current share price by the number of shares in issue), India is in the fourth position with $894 billion after the US ($17,000 billion), Japan ($4,800 billion) and China ($1,000). India is expected to soon cross the trillion dollar mark. As per the Forbes list for 2007, the number of billionaires of India has risen to 40 (from 36 last year) more than those of Japan (24), China (17), France (14) and Italy (14) this year. A press report was jubilant: This is the richest year for India. The combined wealth of the Indian billionaires marked an increase of 60 per cent from $106 billion in 2006 to $170 billion in 2007. The 40 Indian billionaires have assets worth about Rs 7.50 lakh crores whereas the cumulative investment in the 91 Public Sector Undertakings by the Central Government of India is Rs. 3.93 lakh crores only.

The Dark Side of Globalization

On the other side of the medal, there is a long list of the worst of the times, the foremost casualty being the agriculture sector. Agriculture has been and still remains the backbone of the Indian economy. It plays a vital role not only in providing food and nutrition to the people, but also in the supply of raw material to industries and to export trade. In 1951, agriculture provided employment to 72 per cent of the population and contributed 59 per cent of the gross domestic product. However, by 2001 the population dependent upon agriculture came to 58 per cent whereas the share of agriculture in the GDP went down drastically to 24 per cent and further to 22 per cent in 2006-07. This has resulted in a lowering the per capita income of the farmers and increasing the rural indebtedness. The agricultural growth of 3.2 per cent observed from 1980 to 1997 decelerated to two per cent subsequently. The Approach to the Eleventh Five Year Plan released in December 2006 stated that the growth rate of agricultural GDP including forestry and fishing is likely to be below two per cent in the Tenth Plan period. The reasons for the deceleration of the growth of agriculture are given in the Economic Survey 2006-07: Low investment, imbalance in fertilizer use, low seeds replacement rate, a distorted incentive system and low post-harvest value addition continued to be a drag on the sectors performance. With more than half the population directly depending on this sector, low agricultural growth has serious implications for the inclusiveness of growth.

The number of rural landless families increased from 35 per cent in 1987 to 45 per cent in 1999, further to 55 per cent in 2005. The farmers are destined to die of starvation or suicide. Replying to the Short Duration Discussion on Import of Wheat and Agrarian Distress on May 18, 2006, Agriculture Minister Sharad Pawar informed the Rajya Sabha that roughly 1,00,000 farmers committed suicide during the period 1993-2003 mainly due to indebtedness. In his interview to The Indian Express on November 15, 2005, Sharad Pawar said: The farming community has been ignored in this country and especially so over the last eight to ten years. The total investment in the agriculture sector is going down. In the last few years, the average budgetary provision from the Indian Government for irrigation is less than 0.35 percent.

During the post-reform period, India has been shining brilliantly with a growing number of billionaires. Nobody has taken note of the sufferings of the family members of those unfortunate hundred thousand farmers. Further, the proportion of people depending in India on agriculture is about 60 per cent whereas the same for the UK is 2 per cent, USA 2 per cent and Japan 3 per cent. The developed countries, having a low proportion of population in agriculture, have readily adopted globalization which favors more the growth of the manufacturing and service sectors.

About the plight of agriculture in developing countries, Nobel Prize-winning economist Joseph Stiglitz said: Trade agreements now forbid most subsidies except for agricultural goods. This depresses incomes of those farmers in the developing countries who do not get subsidies. And since 70 per cent of those in the developing countries depend directly or indirectly on agriculture, this means that the incomes of the developing countries are depressed. But by whatever standard one uses, today's international trading regime is unfair to developing countries. He also pointed out: The average European cow gets a subsidy of $2 a day (the World Bank measure of poverty); more than half the people in the developing world live on less than that. It appears that it is better to be a cow in Europe than to be a poor person in a developing country.

Demoting Agriculture


Strategy of Globalization

In the Report (2006) East Asian Renaissance, World Bank Advisor Dr. Indermit Gill stated: Cities are at the core of a development strategy based on international integration, investment and innovation. East Asia is witnessing the largest rural-to-urban shift of population in history. Two million new urban dwellers are expected in East Asian cities every month for the next 20 years. This will mean planning for and building dynamic, connected cities that are linked both domestically and to the outside world so that economic growth continues and social cohesion is strengthened. The market economy seems to be more concerned with the growth of consumerism to attract the high income groups who are mostly in the cities in the developing countries. Rural economy and the agricultural sector were out of focus in the strategy of globalization.

Growth of Unemployment Poverty

The proportion of the unemployed to the total labor force has been increasing from 2.62 per cent (1993-94) to 2.78 per cent (1999-2000) and 3.06 per cent (2004-05). In absolute figures, the number of unemployed had been in those years 9.02 million, 10.51 million and 13.10 million respectively. (Economic Survey 2006-07, Table 10.4). In reply to a question, the Minister for Labor and Employment informed the Lok Sabha on March 19, 2007, that the enrolment of the unemployed in the Employment Exchange in 2005-07 was 79 lakhs against the average of 58 lakhs in the past ten years.

About the impact of globalization, in particular on the development of India, the ILO Report (2004) stated: In India, there had been winners and losers. The lives of the educated and the rich had been enriched by globalization. The information technology (IT) sector was a particular beneficiary. But the benefits had not yet reached the majority, and new risks had cropped up for the losers who socially deprived and the rural poor. Significant numbers of non-perennial poor who had worked hard to escape poverty were finding their gains reversed. Power was shifting from elected local institutions to accountable trans-national bodies. Western perceptions, which dominated the global media, were not aligned with local perspectives; they encouraged consumerism in the midst of extreme poverty and posed a threat to cultural and linguistic diversity.
Social Services

About the quality of education given to children, the Approach to the Eleventh Five Year Plan stated: A recent study has found that 38 per cent of the children who have completed four years of schooling cannot read a small paragraph with short sentences meant to be read by a student of Class II. About 55 per cent of such children cannot divide a three digit number by a one digit number. These are indicators of serious learning problems which must be addressed. The Approach paper added further: Universalisation of education will not suffice in the knowledge economy. A person with a mere eight years of schooling will be as disadvantaged in a knowledge economy by ICT as an illiterate person in modern industry an services.

The less said about the achievements in health the better. The Approach to the Eleventh Plan concedes that progress implementing the objectives of health have been slow. The Report gave the particulars of the rates of infant mortality (per 1000 live births) for India as 60 against Sri Lanka (13), China (30) and Vietnam (19). The rate of maternal mortality (per 1,00,000 deliveries) of India is 407 against Sri Lanka (92), China (56) and Vietnam (130).

Growth of Slum Capitals

In his 2007-08 Budget Speech, Finance Minister Chidambaram put forth a proposal to promote Mumbai as a world class financial centre and to make financial services the next growth engine of India. Of its 13 million population, Mumbai city has 54 per cent in slums. It is estimated that 100 to 300 new families come to Mumbai every day and most land up in a slum colony. Prof R. N. Sharma of the Tata Institute of Social Science says that Mumbai is disintegrating into slums. From being known as the slum capital of India and the biggest slum of Asia, Mumbai is all set to become the slum capital of the world. The population of Delhi is about 14 million of which nearly 45 per cent population lives in slums, unauthorized colonies, J.J. clusters and undeveloped rural parts. During dry weather these slum dwellers use open areas around their units for defecation and the entire human waste generated from the slums along with the additional wastewater from the households is discharged untreated into the river Yamuna. The cumulative FDI inflows (until September 2006) to the New Delhi region was of Rs. 27,369 crores and to Mumbai Rs. 24,545 crores. The two spots of New Delhi and Mumbai received 46 per cent of the total FDI inflows into India. The FDI inflows have in no way assisted in improving the health and environment conditions of the people. On the other hand, the financial capital of India and the political capital of India are set to become the topmost slum cities of the world.

Victims of Globalization

In his Making Globalization Work, Nobel Laureate Stiglitz wrote: Trade liberalization opening up markets to the free flow of goods and services was supposed to lead to growth. The evidence is at best mixed. Part of the reason that international trade agreements have been so unsuccessful in promoting growth in poor countries is that they were often unbalanced. The advanced industrial countries were allowed to levy tariffs on goods produced by developing countries that were, on average, four times higher than those on goods produced by other advanced industrial countries. In his foreword to The Dynamics and Impact of Globalization by Dr. M. V. Louis Anthuvan, Justice V. R. Krishna Iyer pointed out pitfully: The New World Order is the product of what is now familiarly described as globalization, liberalization and privatization. The weaker sectors like the Asian and African countries are victims, whose economic welfare is slavery, at the disposal of the White world. When World War II came to a close, commercial conquest and trade triumph became the major goal of the United States and the other giant trade powers. Indeed, these mighty countries and companies even made world hunger as Big Business. The poorer countries with natural resources have been made banana republics and cucumber vassals.

The Human Development Report 2006 recorded: Globalization has given rise to a protracted debate over the precise direction of trends in global income distribution. What is sometimes lost sight of is the sheer depth of inequality and the associated potential for greater equity to accelerate poverty reduction. Measured in the 2000 purchasing power parity (PPP) terms, the gap between the incomes of the poorest 20 per cent of the world’s population and the $1 a day poverty line amounts to almost $300 billion. That figure appears large, but it is less than two per cent of the income of the worlds wealthiest 10 per cent.

To make Globalization Work

Under the phenomenal growth of information technology which has shrunk space and time and reduced the cost of moving information, goods and capital across the globe, the globalization has brought unprecedented opportunities for human development for all, in developing as well as developed countries. Under the commercial marketing forces, globalization has been used more to promote economic growth to yield profits to some countries and to some groups within a country. India should pay immediate attention to ensure rapid development in education, health, water and sanitation, labor and employment so that under time-bound programmes the targets are completed without delay. A strong foundation of human development of all people is essential for the social, political and economic development of the country.

Though at present India appears to be dominant in some fields of development as in IT-ITES, this prosperity may be challenged by other competing countries which are equipping themselves with better standards of higher education. As detailed earlier, our progress in education has been slow and superficial, without depth and quality, to compete the international standards. The government should take immediate steps to increase agricultural production and create additional employment opportunities in the rural parts, to reduce the growing inequality between urban and rural areas and to decentralize powers and resources to the panchayati raj institutions for implementing all works of rural development. Steps should be taken for early linking of the rivers, especially in the south-bound ones, for supply of the much-needed water for irrigation.

It should be remembered that without a sustainable and productive growth of the agricultural sector, the other types of development in any sphere will be unstable and illusory. Despite the concerted development in manufacturing and service sectors, despite the remarkable inflow and foreign reserves, agriculture is still the largest industry providing employment to about 60 per cent of the workforce in the country. Mere growth of the GDP and others at the macro level in billions does not solve the chronic poverty and backward level of living norms of the people at the micro level. The growth should be sustainable with human development and decent employment potential. The welfare of a country does not percolate from the top, but should be built upon development from the bottom.

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