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Policy changes in the wake of globalization and its impact on Indian industries

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Abstract

Serious budgetary and fiscal deficit of the government and perilous balance of payment crises occurred in 1991, which put India into a dangerous economic and financial chasm. Therefore in 1991 India was on the threshold of bankruptcy for international payments. Consequently series of reforms were undertaken with respect to industrial sector, trade and for financial sector, to make Indian economy more competent in 1991. The year 1991 witnessed the era of new regulatory, liberalized and globalized economic time in power. This paper discus the various policy changes in terms of the FDI, Foreign Exchange, Industrial Sector, Merger and Acquisition and Foreign Trade of in tune with globalization.

JEL classification: E20; E22; E60; E61; E66

Keywords: Globalization; FDI; Industrial sector; Foreign trade

1. Introduction

Momentum to the process of globalization occurred in the recent years as a consequence of speedy progress especially in communications, transport and computer technology. Impact of globalization on Indian industry started to appear apparently when the government of India modified its economic policy in 1991, by which it allowed direct foreign investments in the country. As a result, the Indian industries prone to globalization on a large scale after 1991 in

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its various sectors such as steel, pharmaceutical, petroleum, chemical, cement, textile, retail and other FMCG and BPO.[1]

In regards of globalization and Indian industry, back in the eighties India forwarded a foot step ahead in the process of globalization when new industrial policy was announced on July 23, 1980. The industrial policy statement of 1980 was believed to be first ever liberal industrial policy and its focused was mainly on import and export, merger and acquisition, correcting industrial sickness, pricing policy, takeover of sick unit, foreign collaboration and investment.[2] Regardless of the remarkable growth performance in the wake of new industrial plolicy1980, serious budgetary and fiscal deficit of the government and perilous balance of payment crises occurred in 1991, which put India into a dangerous economic and financial chasm. As a result, in 1991 India was on the threshold of bankruptcy for international payments. Therefore series of reforms were undertaken with respect to industrial sector, trade and for financial sector, to make Indian economy more competent in 1991. The year 1991 witnessed the era of new regulatory, liberalized and globalized economic time in power.

Promotion of economic growth and development since 1991 made Indian economy as one of best ever growing economies in the world. Indian government is highly focused on bringing changes into the economy and to promote high economic growth. By realizing the potential of the world market and foreign investors, the government has come up numerous policies, which promote investment and provide incentives for foreign and local investors. One can easily understand this from the fact that, currently Indian economy is the 12th largest economy in the world.[3]

India's GDP growth rate in the 1970s was very low which was stood at 3%, while GDP growth rate of countries like Brazil, Indonesia, Korea, and Mexico was more than twice that of India. In 80s India's average annual growth rate rose to 5.9% which was almost doubled, still it was lower than the growth rate in China, Korea and Indonesia. With liberal policy framework of domestic economy in 1991, there increases the integration of India economy with the global economy that facilitated to step up the GDP rates. As a consequence, the growth rates picked up from 5.6% in 1990–1991 to a peak level of 7.8% in 1996–1997. In the subsequent years because of the worst droughts, poor industrial and agriculture performance, the growth rates had slowed and had slumped to the lowest level 4.3% in 2002–2003.[4]

The beginning of post reforms era in the years 2002–2003 witnessed a notable feature of the growth phase. The sharp rise in the rate of investment in the economy manifested India's global aspiration. The number as well as size of the foreign targets showed steep rise. More than 50 overseas acquisitions took place in 2003 which amounted $1.8 billion, as compare to $0.21 billion in 2002. The deal size averagely increases from $7.5 million in 2002 to $36.5 million in 2003. India has adopted such domestic policies that have enabled people to take advantage of global markets and hence the share of trade in GDP sharply increased after globalization. India has been now catching up with the rich ones – our annual growth rates increased from 1% in the 1960s to 5% in the 1990s and more than 8% in 2008. Indians saw their wages rise, and the number of people in poverty declined.[5]

[1] Mapsofindia.com 'Modified its Economic Policy, Direct Foreign Investments'.

[2] Dr. Shaikh Saleem (2007) commented on the various industrial policy announced by the government time to time.

[3] Prit Articles (2007) 'economic growth, world market, foreign investors'.

[4] Balakrishnan (2004) has commented on the growth of Indian economy.

[5] Bhushan Parulekar explained post reforms (after 2002–2003) happening in Indian economy and discussed the overseas acquisitions.

Further being a forward looking, variable investment in general reflects a high degree of business optimism. The revival in gross domestic capital formation (GDCF) in 2002–2003, has been resulted into sharp rise in rate of investment in the economy. Growth of services sector has continued to be broad-based during these periods and the subsectors like trade, hotels, and transport and communication services had continued to boost up the sector by growing at double-digit rates. Impressive progress in information technology (IT) and IT-enabled services, rail and road traffic and fast addition of telephone connections to existing stock particularly mobiles, played a key role in such growth. Growth in financial services which comprising banking, insurance, real estate and business services, bounced to 8.7% in 2004–2005 and 10.9% in 2005–2006 after dipping to 5.6% in 2003–2004. This growth momentum has been maintained with 13.9% in 2006–2007.[6] An evaluation of these facts demonstrates that, India is now the fastest growing economy just after China with GDP growth rate of more than 9% in the current year 2008–2009.

Since 1991 and more so in the first decade of 21st century India has been a dynamic beneficiary of process of globalization. It has impacted not only the industrial sector but also almost all sectors of Indian economy and achieved versatile development. Now India signifies its presence on the global map. India's literature, arts, films, religions, food, textiles, fashions and music are now became an integral part of life of the west. Its doctors, IT specialists, computer scientists, small and large industrialists, managers and engineers have made their presence in the west on large scale and thus made a very considerable impact. Indeed, they are admired for their skills and hard work and are much sought after.[7]

2. What makes India to liberalize?

In July 1991 Indian economy fall into deep crisis, when foreign currency reserves more or less had crash down to $1 billion; Inflation had touch to an annual rate of 17%; fiscal deficit was very high and had become unsound; foreign investors and NRIs had lost confidence in Indian economy. Capital was flying out of the country and India was close to defaulting on loans.[8] Along with these bottlenecks the regime of control and license had put manacles on the development process. This period also witnessed the growth of corruption and set up the nexus between the bureaucrats and politicians, causing the hindrance to the growth process.[9] Due to these problems it was thought that once the economy was set free from the regime of control, quotas and license, it would fetch high growth rate of GDP. Hence in 1991 the government called for complete refurbishing of our economic policies and programs.

3. Major policy changes and its relevance to Indian economy[10]

For making Indian economy as the fastest growing and globally competitive economy, massive policy changes had been introduced. The noteworthy policy changes are:

[6] Ministry of Commerce and Finance through the economic survey demonstrates the status of economic growth of the country.

[7] Anurag (2007) explain the sectoral and stratified impact of globalization.

[8] Goyal (2006) forth the economic condition of India during 1991.

[9] Gandhi (2003), jolt down the illness of Indian Economy.

[10] Economic Surveys since 1991–2008.

- De-reservation of industries for public sector.
- Deregulating the industrial policy and liberalizing foreign investment and technology imports.
- Sweeping away of industrial licensing.
- Amendment in Monopoly and Restrictive Trade Practices (MRTP) and Foreign Exchange Regulatory Act (FERA).
- Approval of foreign investment up to 51% equity in specified high priority area.
- Approval of foreign technology agreement.
- Acquiring the membership of WTO.
- Removal of quantitative restrictions on imports.
- Policy of progressively lowering the custom tariffs.
- Establishment of Special Economic Zones (SEZs) in different parts of the country.

As far as economic policy concern in terms of industries in initial periods of Indian development, it was control and regulated through Industries and Development Act (IDA 1952) and it played positive role, because the aim of the act was to ensure the investment in industries which would facilitated the socially desirable channel. One of the superb features of this act was that, once industries grant the license under this act automatically industries were suppose to enjoy all other clearance like import license for plant and machinery, permission to capital issue, power and water facilities from the state governments, etc., thus the act was single window clearance.

With the passage of time, Indian industry advances towards the maturing stage but with more dependencies on foreign collaboration. Addition to this in the subsequent periods of industrialization, India came across with foreign exchange crisis and thus compelled the government to examine every project from standpoint of its implication on foreign exchange as well as those of foreign collaboration. Further large numbers of industrial licenses were issued to countable number of big corporate houses who deliberately created shortages in terms of production and distribution for their own benefit. These happening led the emergence of Monopoly and Restrictive Trade Practices (MRTP) in 1970 and Foreign Exchange Regulatory Act (FERA) 1973, thus Indian industries during the periods face the era of control regime.

Though the control regime brought out to serve the purpose of social benefits but it had been attached with chronic ailments in terms of approval of investment proposal (licensing). It took two to three years to get any major investment proposal in contrast with a few months taken in the initial periods of planning (IDA 1952). This delay in approval became so complicated that, it began to act as a force to slow down the investment in the country. Even the foreign investors were very uncomfortable about the regime of control and started to divert their investment in other countries where investment environment and restriction were limited and lenient. Thus control regime gradually put down the Indian industrial sector into lethargic situation.

As far as public sector industries which are controlled by the government concerned, even if they played crucial role in economic development of the country they had attached with various problem like low profitability due high cost of production and low capacity utilization, pitiable managerial competence, lack of autonomy and inadequate accountability. Hence public enterprises ultimately contributed to budgetary deficit of the country because they were over finance by government.[11]

As with foreign investment concerned it was tightly regulated in India. Previously it was necessary to obtain the prior approval from the government for foreign technology agreement and foreign investment as well. With the expansion of industrial activity in the country the case

[11] Batra and Dhangwal (1999).

by case approval process became cumbersome. Thus government interference became cause of delay in foreign technology import and investment.

In the view of above happening and in tune with emerging trends in globalization of business, the 1991 industrial policy initiated and several measures like deregulation and abolishing the industrial licensing, obliteration of the 'Monopolies and Restrictive Trade Policies' (MRTP) Act, higher liberalization for foreign investment from foreign counterparts, passable incentive for technological imports in terms of automatic approval to high technology and high investment priority industries had been took by the government with several other measures. This period of economic transition has had go off with an incredible bang on the overall economic development of almost all major sectors of the economy, and its outcome over the last decade can hardly be overlooked.[12] Besides, this Indian Economy also marks the advent of the real integration with the global economy, as India accepted the membership of World Trade Organization (WTO) in 1994. As a result of wide ranging liberalization of the economy the inflows of foreign investment to India rose steadily and touched $6 billion in 1996–1997 from mere $0.10 billion in 1990–1991.[13]

3.1. Recent initiatives of government on FDI policy

For creating India as most attractive destination for FDI in globalizes and competitive environment Secretariat for Industrial Assistance (SIA), Department of Industrial Policy and Promotion, Ministry of Commerce and Industry announce[14] following recent initiatives on the FDI front:

FDI limit has been raised up to 100% in printing scientific and technical magazines, periodicals and journals with prior government approval. FDI up to 26% permitted in Indian entities publishing newspapers and periodicals subject to guidelines issued by Ministry of Information and Broadcasting from time to time.

- FDI up to 100% permitted on the automatic route on petroleum product marketing and petroleum product pipelines.
- FDI up to 100% permitted on the automatic route in oil exploration in both small and medium sized fields subject to guidelines.
- FDI up to 100% permitted for natural gas/LNG pipelines with prior govt.
- Approval. Restriction on the duration of the royalty payments on all foreign technology collaboration agreements covered under automatic approval route withdrawn.
- FDI limit in private sector banking raised to 74% from 49% subject to RBI guidelines Issue of equity shares against lump sum fee, royalty and all external commercial borrowings (excluding deemed ECBs) in convertible foreign currency permitted.
- FDI up to 100% permitted in tea sector, including tea plantations with prior Government approval subject to compulsory divestment of 26% equity of the company in favour of Indian partner/Indian public within a period of 5 years and prior approval of the State Government in case.
- Defence industry sector opened to Indian private sector participation with FDI permitted up to 26% with Government approval subject to security and licensing requirements.

[12] Malik (2008) has explained the outcome 1991 Industrial Policy.
[13] Suma Athreye, 'Integration, Global Economy'.
[14] Secretariat for Industrial Assistance (SIA) initiatives on the FDI.

With more liberal economic reforms since 2002, the Indian enterprises began to prove their presence in transnational trade activity as a part of process of globalization, this in turn opened up attractive possibilities of access to well-built domestic and international markets. On the other hand the internationalization of Indian enterprises bought the challenges of global competition, rapid technological changes, stronger and deeper linkages of MSEs with larger enterprises and improved manufacturing techniques and management processes. Hence to address the challenges of competition, to avail the benefits of the global market and to enhance competitive strength, Government took Initiatives and enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, which was the extension of the 'Small and Medium Enterprises Development (MSMED) Bill 2005' introduced in the Lok Sabha (Parliament) on 12th May 2005.

3.2. Features of the Micro, Small and Medium Enterprises development act, 2006[15]

It provides the first-ever legal framework for recognition of the concept of "enterprise" (comprising both manufacturing and services) and integrating the three tiers of these enterprises. Under the Act, enterprises have been categorized broadly into those engaged in (i) manufacturing and (ii) providing/rendering of services. Both categories have been further classified into Micro, Small and Medium Enterprises, based on their investment in plant and machinery (for manufacturing enterprises) or in equipment (in case of enterprises providing or rendering services).

The Act provides statutory consultative mechanism at the national level with wide representation of all sections of stakeholders, particularly the three classes of enterprises, with a wide range of advisory functions and an Advisory Committee to assist the Board and the Centre/State Governments. The other features include (i) establishment of specific funds for the promotion, development and enhancement of competitiveness of these enterprises, (ii) notification of schemes/programmes for this purpose, (iii) progressive credit policies and practices, (iv) Government preference in procurements of products and services of the micro and small enterprises, (v) more effective mechanisms for mitigating the problems of delayed payments to micro and small enterprises and (vi) simplification of the process of closure of business by all three categories of enterprises.

4. How globalization impacted on Indian industry?

Principally the impact of globalization on Indian industry had been started with the emergence of Industrial Policy Statement of 1973 when foreign investment allowed in specific industries. But this impact was very plodding as the entire foreign proposal subjected to be screened on the basis of technological expertise and its impacts on export. The pace of this change improved slightly soon after when then Prime Minister Mr. Rajiv Gandhi delineated the new trends in economic policy of the government.[16] But due to the certain cumbersome and growth dwindling policies the economic condition of the nation remain to deteriorate and continued till 1990 and created severe financial crisis.

Soon after the economic turmoil the policy maker realized that, the government should work for; creating conducive environment for business activities, offer the consumerist impulse and

[15] Economic Survey (2004–2005).

[16] Batra and Dhangwal (1999) presented analytical explanation of Industrial Policy Statement.

should pave the way for maximum output to the investor. Thus the far-reaching liberalization process has been introduced by the government. In addition, to make Indian economy progressively market oriented and to integrate it with global economic structure in more meaningful way, sea changes had been introduced in age old government policies. With flaring-up of economic reforms in 1991, the structural Changes started to occur in the Indian industrial sector and process of globalization began on large scale. The prime intention behind this initiation was that, the government wanted to broke down the chronicle bottleneck that stopped efficiency and competitiveness, so that it would provide the impetus to economic growth. The government by and large implemented the policy of deregulation and de-licensing and decided to open the markets for foreign investments and took positive step for dismantling the trade barriers to have broader financial flow, trade in services and goods, and corporate investments between nations.[17] Thus an Indian industrial sector has been observing an extreme state of transformation in every arena under its purview. This transformation is the outcome of the trinity of Globalization, liberalization and privatization that has been pushed by the World Bank (WB) and International Monetary Fund (IMF) in a crisis situation under the Structural Adjustment Programme (SAP) from 1991 and still it is functioning till the date.[18]

To understand broadly the impact of globalization on the Indian industry it needs to understand the impact of globalization on the various functioning areas of industries that decides the overall performance which is as follows.

4.1. Heavy foreign investment in industrial sector

Economic policy changes which have been introduced by Indian government in 1991, in the wake of globalization revolutionized the Indian industrial sector rigorously. To attract FDI, the policy regime for FDI was liberalized considerably. In addition to above discussed policy government also pave the way for equity investment of up to 51% in certain areas and identified high priority industries for foreign technology agreements[19]. Accordingly as provided by RBI, foreign investment up to 51% in 35 high priority areas allowed for automatic approval. Further easier admittance provided to overseas investors to manage and own their businesses in the country and foreign equity allowed in several sectors. With the passes of time government steadily permitted FDI in almost all industries. Thus various Goods with foreign brand names and trademarks are allowed for sale in India. These incentives allow foreigners to invest and therefore provide an inflow of funds into the nation, promoting economic growth and development.

To sustain in a globalized and more competent environment, serious efforts were made and several actions both on policy and implementation front were taken to attract greater inflow of FDI in the country after 2002. There after foreign direct investment is freely allowed in all sectors including the services sector, except a few sectors where the existing and notified sectoral policy does not permit FDI beyond a ceiling. Foreign Direct Investment virtually for all items/activities brought under the Automatic Route through the powers delegated to the Reserve Bank of India (RBI),

[17] Dhangwal and Batra (2002) described policy matter for sustainable development of economy.
[18] P. M. Tripaathi derived impact of global happening on India.
[19] Goldar and Banga (2006) (October 2006), explained issues regarding FDI in India.

and for the remaining items/activities through Government approval. Government approvals are accorded on the recommendation of the Foreign Investment Promotion Board (FIPB).[20]

Due the positive measure since 1991 the amount of FDI increases progressively. The total Foreign Investment Flow in 1990–1991 was US $ million 103 but with lax in policy control it showed the robust growth and increased to US $ million 4892 in 1995–1996. The growth rate of Foreign Investment continued to be better till 1999–2000 but it reduced in 2001–2002. For the year 2001–2002 the foreign investment was US $ million 6789 and this happened because of weak industrial growth of 2.7%, as measured by the Index of Industrial Production (IIP) due to slowdown in world output. The slowdown was broad based and took place across most of the industry in India.[21] In the subsequent years the industrial production has been improved coupled with policy changes in foreign investment fuelled the growth rate in foreign investment and it was US $ million 15,366, US $ million 21,453, US $ million 29,829, US $ million 63,757 in the years 2004–2005, 2005–2006, 2006–2007, 2007–2008, respectively (Table 1). Although the inflow of FDI is increasing since the globalization but it is very meagre when it compare with the total inflow of investment in Asia. This can be observe from the fact that, the total inflow of foreign direct investment in Asia during 2007 was $ 249 billion and for same periods it was mere $ 23 billion for India, contributing roughly 9.33% to the total investment in Asia[22] same was situation in previous years. Hence India has terrific potential for absorbing greater flow of FDI in the coming years.

It has been noted that, the top sector that attracted the highest FDI inflow since the beginning of globalization in 1991 were, Electrical Equipments, Services Sector, Telecommunications, Transportation Industry, Chemicals (other than fertilizers), Drugs and Pharmaceuticals, Cement and Gypsum Products/Housing and Real Estate, Metallurgical Industries. The cumulatively FDI of these sectors since April 2000 to November 2007 were Rs. 30,760 crores, Rs. 38,228 crores, Rs. 15,607 crores, Rs. 9989 crores, Rs. 5956 crores, Rs. 4633 crores, Rs. 7573 crores, Rs. 4572 crores, respectively, and the share of these sectors in total inflow of foreign investment was 15.98%, 19.86%, 8.11%, 5.19%, 3.09%, 2.41%, 3.93%, 2.37% correspondingly for the same periods (Table 2).

As a result of widespread review of FDI policy, wide ranging policy changes were notified in 2006 such as extending automatic route, increasing equity cap, removing restriction, simplifying procedure and expand the horizon of FDI to the single brand product in retailing which allows 51% foreign equity ownership, encouraged foreign brands to invest and expand their retail activities in the country. Of late, several steps have been initiated to facilitates FDI inflows which includes; raising the equity cap in Civil Aviation; Organizing Destination India events in association with CII and FICCI with a view to attract investment. To take fast decision on investment related problem it has been decided to activate the Foreign Investment Implementation Authority (FIIA). The Department of Industrial Policy and Promotion, Ministry of Commerce and Industry Government of India also provide the support for having regular interaction with foreign investor and meeting with individual investors through bilateral/regional/international meets. To have easiness the department also provides online chat facility through its portal and as such about 4500 investment related queries have replied during 2007–2008.[23] One can delineate the impact of this reforms

[20] Manual on Foreign Direct Investment India (2003) 'Automatic Route, Government approval'.

[21] Economic Survey (2002–2003) 'trends in FDI'.

[22] World Investment Report (2008), 'trends in global FDI inflows'.

[23] Economic Survey (2007–2008), explain role various government agencies & their policy matter.

Table 1
India's foreign trade, foreign investment inflow (FDI) and foreign exchange reserve.

Year	India's foreign trade				Amount (FDI) (US $ million)	Foreign exchange reserves (Rs. Cr.)		Foreign exchange reserves (US $ million)	
	Rupees crore		US $ million						
1990–1991	44,042	47,851	17,865	19,411	103	Mar-94	61,358	Mar-94	19,553
1995–1996	106,353	122,678	31,795	36,675	4892	Mar-95	80,830	Mar-95	25,517
2000–2001	203,571	230,873	44,560	50,537	6789	Mar-00	168,783	Mar-00	38,694
2001–2002	209,018	245,200	43,827	51,413	8151	Mar-01	200,077	Mar-01	42,897
2002–2003	255,137	297,206	52,719	61,412	6014	Mar-02	267,013	Mar-02	54,716
2003–2004	293,367	359,108	63,843	78,149	15,699	Mar-03	361,470	Mar-03	76,100
2004–2005	375,340	501,065	83,536	111,517	15,366	Mar-04	490,129	Mar-04	112,959
2005–2006	456,418	660,409	103,091	149,166	21,453	Dec-05	618,383	Dec-05	137,206
2006–2007	571,779	840,506	126,362	185,749	29,829	Mar-06	676,387	Mar-06	151,622
2007–2008	640,172	964,850	159,007	239,651	63,757	Mar-07	868,222	Mar-07	199,179
						Jun-08	1,298,552	Jun-08	312,087

Source: RBI Monthly Bulletin, January 2009, p. S87 and Reserve Bank of India Annual Report (2007–2008), Appendix Table 56, p. 419, Reserve Bank of India, Originally compiled from Directorate General of Commercial Intelligence and Statistics.

Table 2
Cumulative share of FDI and its share in total inflow of FDI (April 2000 to November 2007) Rs. in crores.

Sector	Cumulative inflow (April 2000 to November 2007)	Share of inflows (%) (April 2000 to November 2007)
Electrical equipments	30,760	15.98
Services sector	38,228	19.86
Tele communications	15,607	8.11
Transportation industry	9989	5.19
Chemicals (other than fertilizers)	5956	3.09
Drugs and pharmaceuticals	4633	2.41
Cement and gypsum products/housing and real estate	7573	3.93
Metallurgical industries	4572	2.37

Source: Economic Survey 2005–2006–2006–2007–2008.

from the fact that, out of 300 international retailers surveyed, more than a quarter of the retailers opened their first store in India in 2007 or are planning to do so in the near future.[24]

4.2. Substantial growth of industrial sector

Since the globalization and with the inception of trade reforms Indian economy has seen considerable growth in Gross Domestic Product (GDP) and witnessed improved contribution of industrial sector to the GDP. India's proclivity to a more liberalized and privatized market economy, generated lead in the growth rate of industrial production which had been touched to the level of 13% in 1995–1996. But due to the slowdown in domestic and global demand, industrial growth rate of all the major sub sectors adversely affected in 2000–2001 and decreases to the level of 5.8%. The industrial slowdown is also reflected in the considerable decline in sanctions and disbursement made by financial institutions and in the performance of core and infrastructure industries.

The industrial slowdown observed in 2000–2001 continued with greater intensity during the year 2001–2002 with a significant deceleration in all major sectors. Overall industrial growth during April–December 2001–2002 at 2.3%, was substantially lower than the growth rate, during the corresponding period 2000–2001. In fact the growth rate of the Industrial sector during the first nine months of the 2001–2002 was the lowest during the last ten years.[25]

Learning through the experience Indian government introduced calibrated reforms in the various sectors and formulated the several strategies during 2002 for achieving the industrial growth. As a consequence, Indian companies which were only operated in the country few decades ago, have dared to expand their businesses abroad and thus started to integrate with global production chain after 2002 and experienced an increasingly deepening globalization. Owing to this the industrial sector recorded a robust rate of growth of 8.5%, 8%, 10.6%, and 8.1% during 2004–2005, 2005–2006, 2006–2007 and 2007–2008, respectively. The industrial groups like food products, jute textiles, wood products, leather products, chemicals and chemical products and "other manufacturing" have grown at an accelerated pace, in 2006–2007, thus industrial sector contributed to moderate share of 19.6%, 19.4%, 19.5%, 19.4% to real GDP in the years 2004–2005, 2005–2006, 2006–2007 and 2007–2008, respectively. If the industrial growth rate is calculated in terms of Rs.

[24] CB Richard Ellis (2008), retail survey.
[25] Economic Survey (2004–2005).

the industrial production was at Rs. 392,138 crores in 2000–2001 which increases to whopping Rs. 899,144 crores in 2007–2008 (Tables 3 and 4). Thus the industrial upturn which started in April 2002 in the wake of second generation reforms as a part of globalization peaked up the height of growth by the end of 2006–2007 and attained the reasonable growth during 2007–2008.

4.2.1. Performance of micro and small enterprises (MSE's)

Throughout the past 50 years the small scale sector has playing extremely imperative role in the socio-economic development of the country. It has significantly contributed to the Gross Domestic Product (GDP), employment generation and exports. The performance of the small scale sector, therefore, has a direct impact on the growth of the overall economy.

Because of policy initiative in the wake of globalization the Micro and Small enterprises (MSEs) became an important segment of the Indian economy, contributing around 39% of the country's manufacturing output on March 31, 2007 and 34% of its exports in 2004–2005. It provides employment to around 29.5 million people in the rural and urban areas of the country. While analyzing the trends in performance of the MSE researcher observed that, in between 2000–2001 and 2006–2007, the MSE's Sector registered continuous growth in the number of units, production, employment and exports. During this period the number of units increases from 10.5 million to 12.8 millions, employment increases from 25.3 million to 31.3 millions. The investment in 2001–2002 was Rs. 160,673 crores; it became almost double in 2006–2007 and touches the level of Rs. 207,307 crores. For the same periods the exports and value of output also increases (Table 5).

Not only in MSE's but during the periods 2000–2007 there has been tremendous growth in no of Factories since the globalization. A trend analysis of average number of factories of the fifteen representatives Industries at the All India level shows that, on an average, the number of factories in the Indian manufacturing sector is on the rise during the 1991–2000 in comparison to the prior period of analysis thus, globalization must be having some positive impact on the Indian Manufacturing Sector in terms of number of factories. It was 112,286 in number in 1991 rose to 136353 in 2004–2005[26,27] (Table 6). Increasing factories, small, medium and large enterprises have positively turn out to improve the employment in the country.

4.3. Boost in industrial investment

The globalization and encouraging policies of government in the last few years have put on India as a 4th largest economy (in terms of purchase power parity) in the world. Implementation of major reform program by the government in the fields of investment, trade, financial sector, exchange control simplification procedures, enactment and amendments of intellectual property rights laws, created the favourable trade environment in industrial sector. With major plans of diversification, expansion and modernization of industrial sector in the country, India became the tenth most industrialized country in the world.

Beside this India is a country with 60% of its population below the age of 25 years. Accordingly, demand for goods and services are expected to increase in coming years. Studies indicated that, the Indian economy will continue to grow at the rate of at least 5% per annum till 2050.[28] With its

[26] Central Statistical Organization (2004–2005) elaborated statics Indian industries.

[27] Sen (in press)Anuradha, illustrated situation of Indian manufacturing sector.

[28] Secretariat for Industrial Assistance (2005–2006) explained about, 'Investment opportunity in India' and 'FDI policy and procedure'.

Table 3
Growth rates of industrial sector and its share in Gross Domestic Product (at 1999–2000 prices) (in percentage).

Sector	Growth rate						Share in real GDP				
	Average 2000–2001 to 2007–2008	2003–2004	2004–2005	2005–2006[a]	2006–2007[b]	2007–2008[c]	2003–2004	2004–2005	2005–2006[a]	2006–2007[b]	2007–2008[c]
1	2	3	4	5	6	7	8	9	10	11	12
Industry as a whole	7.1	6.0	8.5	8.0	10.6	8.1	19.4	19.6	19.4	19.5	19.4
(a) Mining and quarrying	4.9	3.1	8.2	4.9	5.7	4.7	2.2	2.2	2.1	2.0	2.0
(b) Manufacturing	7.8	6.6	8.7	9.0	12.0	8.8	15.0	15.1	15.1	15.4	15.4
(c) Electricity, gas and water supply	4.8	4.8	7.9	4.7	6.0	6.3	2.3	2.3	2.2	2.1	2.1

Source: Reserve Bank of India Annual Report (2007–2008), originally compiled from, CSO, p. 358.
[a] Provisional Estimate.
[b] Quick Estimate.
[c] Revise Estimate.

Table 4
Growth rates of industrial sector (in rupees crore).

Sector	1 2000–2001	2 2001–2002	3 2002–2003	4 2003–2004	5 2004–2005	6 2005–2006	7 2006–2007	8 2007–2008
(At current prices)								
Industry	392,138	410,667	463,302	509,106	598,271	677,946	790,333	899,144
GDP at factor cost	1,925,017	2,097,726	2,261,415	2,538,171	2,877,706	3,275,670	3,790,063	4,303,654
(At constant prices)								
Industry	372,599	381,366	407,276	431,724	468,451	506,016	559,801	605,061
GDP at factor cost	1,864,300	1,972,606	2,048,287	2,222,758	2,388,384	2,612,847	2,864,310	3,122,862

Source: Reserve Bank of India Annual Report (2007–2008), originally compiled from Central Statistical Organization, p. 358.

Table 5
Performance of micro and small enterprises.

Item	2001–2002	2002–2003	2003–2004	2004–2005	2005–2006	2006–2007 P
Number of units (million)	10.5	11.0	11.4	11.9	12.3	12.8
Employment (million)	25.2	26.4	27.5	28.8	30.0	31.3
Investment (Rs. crore)	160,673	169,579	178,269	188,793	198,050	207,307
Value of output (Rs. crore)	282,270	314,850	364,547	429,796	497,842	N.A.
Exports from SSI (Rs. crore)	71,244	86,013	97,644	124,417	150,242	N.A.

Source: Reserve Bank of India Annual Report (2007–2008), originally compiled from Ministry of Micro, Small and Medium Enterprises, Government of India, p. 65.
P: provisional; N.A.: not available.

Table 6
Annual survey of industries 2004–2005 (factory sector) (value figures in Rs. lakh, and others in number).

Characteristics	1991–1992	2000–2001	2001–2002	2002–2003	2003–2004	2004–2005	2005–2006
No. of factories	112,286	131,268	128,549	127,957	129,074	136,353	NA
Fixed capital	15,190,240	39,960,422	43,196,013	44,475,938	47,333,140	51,306,925	NA
Working capital	4,446,816	10,520,839	10,040,585	10,012,110	11,923,049	16,005,396	NA

Source: Central Statistical Organization, Annual Survey of Industries.

reliable growth performance and copious high-skilled manpower, liberal, attractive, and investor friendly investment climate India provides massive opportunities for investment and thus it became one of the best destination for multinational and investor across the globe.

Due to the continuing efforts of policymakers in direction of making the investment climate more attractive, there is meteoritic rise in the investment proposal since 1991. The cumulative investment proposal under Letters of Intent (LOI)/Direct Industrial Licenses (DILs) and Industrial Entrepreneurs Memoranda (IEM), skyrocketed to around 4372 and 73,471 in number, during the periods from August 1991 to March 2008. The total proposed investment under both the scheme i.e. LOI/DIL and IEM was Rs. 129,781 crores and Rs. 3,795,419 crores during the same periods (Table 7).

As per the trends in industrial investment concerned researcher observed that during 2001, the number of Industrial Entrepreneur Memoranda (IEM) declined to 3094 in number; this shows the slothful investment in 2002, with much lower values than those seen during some of the previous year. Learning from the lesion government introduced various step to improve the investment prospects and introduced considerable procedural simplifications during the year 2004–2005, because of this Industrial investment peaked in 2004 and attained double the value for the proposal, since 1991 (Table 7).

Further as industrial investment concerned, Merger and Acquisition became instruments of significant growth. In the past, the mindset Indian of enterprises was not so positive about the M & A. Therefore they prevented the small and mid-sized companies for cross border intermediation.[29] But in the recent years globalization has augmented cross border M & A; hence the Indian firms are increasingly going for the merger and acquisition as a decisive tool of business strategy.

[29] Sharma and Sharma (2008)Dr. Vijay Kumar Sharma & Mr. Rakesh Kumar Sharma, ‘Merger and Acquisition’.

Table 7
Industrial investment proposals.

Year	IEMs		LOI/DILs		Total Acquisitions		Total mergers
	No. of proposals	Proposed investment (Rs. crore)	No. of proposals	Proposed investment (Rs. crore)	Number	Amount (Rs. crore)	Number
1991 (August to December)	3084	76,310	195	2071	–	–	–
1995–1996	6502	125,509	355	14,265	–	–	–
2001–2002	3094	70,994	102	1361	–	–	–
2002–2003	3178	80,824	60	332	843	23,785	381
2003–2004	4130	154,954	145	3454	830	35,073	291
2004–2005	5548	289,782	101	4309	797	60,282	272
2005–2006	6341	382,743	135	3638	874	100,612	394
2006–2007	5591	692,401	87	4002	924	204,597	358
2007–2008	3673	1,225,761	131	6696	687	76,229	173
Cumulative (August 1991 to March 2008)	73,471	3,795,419	4372	129,781	–	–	–

Source: Reserve Bank of India Annual Report (2007–2008), originally compiled from, Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, Government of India, p. 64 and Centre for Monitoring Indian Economy (CMIE).

While analyzing the trends in total numbers of mergers and acquisition, researcher observed that during the periods 2002–2003, it increases from 1226 to 1282 in 2006–2007. Though the percentage incremental to number of acquisition, seems negligible but in terms of values of transaction it increases tremendously from 23,785 Rs. crores in 2002–2003 to 204,597 Rs. crores in the years 2006–2007. But M & A activity has begun to slow down markedly in the first half of 2008, because of the slowdown in the world economy and the financial turmoil have led to a liquidity crisis in money and debt markets in many developed countries (Table 7). Still India is the most targeted nation in Asia (excluding Japan) for M & A buyouts in 2008, accounting for 36% of the buyouts in the region, followed by China (28%) and South Korea (21%)[30] and researcher feels that this trend will get better in the years to come.

4.4. *Increasing foreign trade due to healthy performance of industries*

The figures on the foreign trade show that, India has influenced the global trade affairs. It is pointed by the Goldman Sachs in their reports '*Dreaming with BRICs: The Path to 2050*' that, the BRICs economies (Brazil, Russia, India and China) together could be larger than the G8 countries in less than 40 years in terms of dollar and India alone would have been the largest economy in the world than US and China in coming 30 years, regardless of small share in world trade at present.[31] This is probably the outcome of liberalized trade and more stretchy business policies of Governments which created the equal opportunities to multinational firms in Indian domestic market. Thus India's external sector has significantly emerged with inner strength to meet the challenges of foreign as well as domestic shocks, following the economic reforms in the 1991. The Indian economy is now more open than ever before.

While analyzing the statics on the India's Import and Export researcher found that the Import and Export is increasing since 1991, in fact it grow enormously after joining the World Trade Organization (WTO) in 1995. The Import and Export in 1991–1992 was Rs. 47,851 crores and Rs. 44,042 crores which rose to Rs. 122,678 crores and Rs. 106,353 in 1995. Further due to the pressure from World Trade Organization there occurred phase-wise cut down of Import duties. Also the quantitative restriction (QR) on imports of 1429 items has been dismantled into two phases, through the EXIM policy, on the ground of balance of payments. This step boosted further the Import and Export progressively since 2001–2002 and it had touched the level of Rs. 245,200 crores and Rs. 209,018 crores, respectively. To correct the anti-exports bias, the trade policy had undergone into fundamental modification in the year 2002 and announced the exports incentives and market based exchange rate. Also with buoyant economic conditions year 2002 witnessed the Global economic recovery, which had gathered momentum in the first quarter of 2002, generated hopefulness regarding robust growth in global output for the subsequent years. This happening propelled India's Import and Export optimistically and it was Rs. 297,206 crores and Rs. 255,137 crores in the year 2002–2003 and Rs. 359,108 crores and Rs. 293,367 crores in 2003–2004 correspondingly. In August 2004, Indian government announced the Foreign Trade Policy (2004–2009). An enabling policy framework leads to high industrial growth, relative prices stability, healthy financial sector and high returns on investment. Due to this concentrated efforts of the government the exports have been more than tripled since 2001–2002 and touched to Rs. 640,172 crores in the year 2007–2008 (Table 1).

[30] Siliconindia (2008), 'number of M & A'.

[31] Foreign Trade Policy Centre, 'figures on the foreign trade'.

These elevating trends in foreign trade are basically the outcome of the healthy performance of various sectors of the Indian industry, which moulded because of globalization to face the global competition. The researcher found that due to sustainable trade policy programme, high growth observed predominantly in terms of Industrial Production and Export Growth by the food products, beverages, tobacco and related products, automobile, textile, gems and jewellery, electronics and information, steel, chemical, petrochemical and pharmaceutical industries.

If the performance and contribution of the industries in foreign trade observe minutely, automobile industry is the key segments of the Indian economy, comprising of around 500 firms in the organized sector and more than 10,000 firms in the small and unorganized sector. It has been one of the fastest growing segments of Indian manufacturing sector and have wide-ranging forward and backward linkages. It grew from US $ 3.1 billion to US $ 15 billion between 1997–1998 and 2006–2007.[32]

It is found that since 2001–2007, the Production of Automobile industry increases from 4,760,000 to 11,065,000 vehicles in number per year while the Export of vehicles for the same periods was 168,000 and 1,011,000, thus it shows tremendous growth rates. In terms of Rupee the Automobile exports crossed the US $ 1 billion mark in 2003–2004 and further increased to US $ 2.76 billion in 2006–2007. The industry exported over 15% passenger cars produced in 2006–2007, almost 10% of the commercial vehicles, 26% of the three-wheelers and 7% of the two-wheelers (Table 8a). Among others, the leading contributors to foreign trade are electronics and information, chemical industries and textile. As electronics industry is concerned, bulk of the Fortune 500 and Global 2000 corporations are sourcing IT-ITES services from India thus Indian IT-enabled Services and Business Process Outsourcing (ITES-BPO) have confirmed their supremacy, in the international market. This sector shows the whopping Production of Rs. 9700 crores in 2002–2003 increased to Rs. 245,600 crores in 2006–2007 and the Export was Rs. 51,700 crores and Rs. 153,300 crores, respectively, for the same periods (Table 8a).

In the same fashion the chemical industry, which includes basic chemicals, petrochemicals and drugs/pharmaceuticals industry, is one of the most diversified of all industrial sectors covering more than 70,000 commercial products. India remained a net importer of chemicals till the end of the 1990s. However, there was a swivel during the year 2000 because of policy changes and in 2002–2003, the exports under basic chemical industry exceeded the corresponding imports. Thus the export for chemicals became doubles from Rs. 17,397corers to Rs. 39,352 crores from the years 2002 to 20007 (Table 8b). Further though the Indian textile sector's performance lag significantly, it seemed to have gathered thrust following the standstill of the quota regime in December 2004 and showed steady growth in production in the subsequent years (Table 8b).

Thus in the wake of globalization, significant changes in policy framework implemented by the government over the years, influence entire industrial environment and helped to strengthen the production and export base, eliminated the procedural obstacles, facilitate input availability, develop the centre of attention on quality and technological up gradation and improved the competitiveness. Steps have also been taken to promote exports through multilateral and bilateral initiatives and for identification of thrust areas and focus regions. These changes in macroeconomics fundamental can be understand from the trends in India's foreign trade and foreign exchange reserve (Table 1) and from the performance of various sectors of the Indian industry.

[32] Economic Survey (2006–2007).

Table 8a
Production and contribution of industrial sector in India's export.

Years	2000–2001	2001–2002	2002–2003	2003–2004	2004–2005	2005–2006	2006–2007	2007–2008 April–November
Automobile industry (in number)								
Production (in thousands)	4760	5316	6280	7229	8451	9743	11,065	7145
Export (in thousands)	168	185	307	479	631	631	1,011	800
Export growth (in percent)	20.24	9.74	65.35	55.98	31.73	27.73	25.43	17.39
Electronics industry								
Production (in crores)	68,850	80,124	97,000	118,290	152,420	190,300	245,600a	NA
Export (in crores)	33,138	80,124	51,700	65,940	88,180	113,725	153,300a	NA

Source: Economic Survey (2007–2008), originally compiled from, Department of Heavy Industry, Ministry of Communications and Information Technology.
a: estimated; NA: not available.

Table 8b
Chemical industry and textile industry.

Years	2002–2003	2003–2004	2004–2005	2005–2006	2006–2007	2007–2008 P
Production chemicals (in 000′ MT)	6645	7096	7408	7676	7534	NA
Export of chemicals (Rs. in crores)	17,397	20,679	25,574	33,462	39,352	NA
Production of fabrics (million sq. Mt.)	41,973	42,383	45,378	49,577	53,389	41,203
Export of textiles (US $ million)	14026.7	17520.1	18729.9	10516.5	10672.8	NA

Source: Economic Survey (2007–2008), originally compiled from, Ministry of Chemicals Economic Survey (2006–2007) and Fertilizers and DGCIS, Kolkata and monthly report O/o textile commissioner, Mumbai.

5. Conclusions

From the above discussion it has been cleared that, globalization bought the far reach impact on the Indian industrial sector. It swayed the policy maker to adopt the structural changes in Industrial Sector and dismantle many of the regulations and restrictions. Viable and easy procedural access makes it possible to MNCs, and foreign players to enter into India enthusiastically. As a result many foreign companies entered the Indian market and they brought in highly technologically advanced machines into the country as a result of which the Indian industrial sector became technologically advanced. It also brought in huge amounts of foreign investments into the country and provided employment opportunities for many people in the country which in its turn helped to reduce the level of poverty in the country. With the advent of WTO, at the trading level Indian industries compelled to adopt good commercial practices, reduced tariff and trade barriers. At the micro level globalization also impacted the industrial set up in terms of people working in the industries by changing skill sets, free movement of people thus created virtual war for talent. The steady performance of the Indian industry with diverse global opportunity improves the foreign trade and Foreign Exchange Reserve of India. In light of above benefits enjoyed by the Indian industries, researcher feels that globalization impacted positively by and large on the Indian industry.

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