Globalization Process in India: A Historical Perspective Since Independence, 1947

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The objective of this paper is to explain the meaning of Globalization in terms of the genesis, the evolution, and the characteristics of globalization with respect to India. The methodology adopted for this research is the Historical Analysis of the globalization process since 1947- the year India became a sovereign state - till 2004. The analysis includes the study of six variables, viz., trade and investment policies of the Government of India, responses of foreign companies to the trade and investment policies of the Government of India, responses of foreign Governments in terms of the structure and motivation of their overseas development assistance, policies of GATT/WTO, Inward foreign direct investments, nature of exports from India, and outward foreign direct investments. The study reveals that globalization with reference to India has been rather shallow in its characteristics. It has been more of globalization ***in*** *India and less of globalization of India.*

INTRODUCTION

Since the early 1970s, there have been several research papers on varied issues of globalization with reference to India. However, one of the basic issues is still not researched sufficiently. The key concern of this paper is to explain the meaning of *Globalization* in terms of the genesis, the evolution, and the characteristics of globalization with respect to India. In other words, the paper focuses on what globalization has meant for India during the last about 60 years.

Overlooking such a fundamental issue in the past studies has lead to confusion on the subject and has lead to misplaced views on the meaning, problems and •prospects of globalization with respect to India. First, it is believed that India put restrictions on Foreign Direct Investments (FDI) that restricted the flow of FDI to India since India became free from colonial rule in 1947. The policies of the GOI and the amount of FDI in India since 1948 to 1961 reveal a different story. India has also been a founder member of General Agreement of Tariff and Trade (GATT),

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a body for free global trade and investment, way back in 1948.

Second, globalization with respect to India has been seen mostly in terms of how freely the GOI has allowed the foreign business entities to operate in India and how much of foreign direct investments have entered India. However, seeing globalization on these lines is only seeing globalization as a one-way process. Third, globalization process in India is generally perceived as a phenomenon of post 1991. The trends in the changes in the policies of the GOI again reveal a different reality. Further, contrary to the reality, the amount FDI in India in the post 1991 period is presumed to be mainly from the American companies.

To clarify the concept of globalization and place it in the proper perspective, our research has undertaken a historical analysis of the various processes involved in the evolution of globalization since 1947 with respect to India. For our analysis, we took seven key parameters, viz,, (1) trade and investment policies of the GOI during 1947-2004, (2) responses of foreign companies to the trade and investment policies of GOI, (3) responses of foreign governments in terms of the structure and motivation of their overseas development assistance, (4) GATT/WTO policies on trade and investment, (5) trends in foreign direct investments, (6) exports including outsourcing from India, and (7) outward foreign direct investments from India.

This paper has four main sections, viz., (I) Literature Review, (II) Research Methodology (III) Parameters of the Globalization Process, and (IV) Conclusions.

I. LITERATURE REVIEW

The great significance of globalization to India and to the world has drawn many scholars and academicians including business historians, economists, social scientists, political economists, management experts and others to write on the subject. Globalization has been addressed from different angles by various scholars and hence it is rather difficult to classify the literature on globalization. However, majority of the writings has been related to impact of globalization either at firm level or at aggregate level and so have been rather normative in their analyses. Obviously, a natural outfall of the impact studies is the existence of two schools of thought from this approach viz., first, globalization has been/will be good for India, and second, globalization has not been good for India. Yet, a third set of scholars have dealt with some dynamics of globalization with reference to some short time intervals.

. Scholars in the first school of thought have argued on the theoretical principle that free trade and competition is good for the whole world in the long run and therefore globalization is also good for India. The proponents of GATT/WTO base their argument on these lines. Foreign companies, foreign governments and international bodies have lashed out at the closed-door policies of the GOI towards international trade and investment. Research works based on specific cases of success have also towed this line of argument. The studies of Johri (1983) and Kumar (1996) are some examples.

Scholars in the second school of thought have based their argument on the impact that liberalization and opening up of the Indian economy had on India. Kidron (1965), Kurien (1966). Athreye (1999), Nayak (2000, 2002. 2003), and Kumar (2003) have studied the impact of FDI on India. Stiglitz (2002) argues that GIobalization has not met its promises to the developing countries. Lall (1999), Sharma (2000) and Nayak (2003) have undertaken studies on nature of exports and imports of India.

The third set of scholars have dealt with the process dynamics of globalization in some specific time periods. Bagchi (1972) argues that the strong political patronage helped the British companies to flourish and grow in India during the early decades of the 20th century. Tomlinson (1989) states that the short-term structures created by British expatriates and multinationals to generate immediate success limited their options for future evolution. Encarnation (1989) discusses the interplay of forces among local government, local companies and the foreign companies from a politico-economic point of view.

None of the previous studies have looked into the basic issues raised in this paper, viz., what has globalization meant in terms of meaning, genesis and characteristics for India in the past six decades? Overlooking these fundamental issues has lead to confusion on the subject and has lead to misplaced views on the problems and prospects of globalization. Further, the existing literature has looked into globalization either in some specific time period or looked at some specific issue of globalization.

By analyzing the history of India integrating with the world business and economy during the last about 60 years, 1947-2004, this paper attempts to explain the overall globalisation process and provide the meaning, genesis and characteristics of globalization with respect to India.

II. RESEARCH METHODOLOGY

The methodology that we chose arose out of the need to address our research problem, i.e., to study the meaning of globalization in terms of its genesis, evolution and characteristics of globalization with reference co India. In the existing literature, -the meaning of globalization with respect to India is not fully explored.

First, the issue has not been directly studied; at best it has been discussed in passing. Second, studies that have dealt with this issue have focused only on some specific periods of the time and there is no continuity among the various studies during the history of India's effort to integrate with the rest of the world economy in the last about 60 years. Third, the past studies have engaged in single or fewer variables in their respective 'studies. However, we think that in order to explain the concept of globalization, a wider set of dimensions including the concerns of the host country and that of the foreign companies, foreign governments and world bodies have to be looked into.

Historical Analysis of the several parameters of the globalization during the last six decades is the approach that we adopted so that the meaning of globalization with respect to India could be explained in the proper perspective. The period of study is from 1947 to 2004, i.e., from the year India became a sovereign state to the present. We have explored globalization from two perspectives, viz., globalization in India and globalizadon of India. We have taken a total of seven variables to capture both the perspectives.

The seven variables for study are: (1) Trade and investment policies of GOI during 1947-2004, (2) responses of foreign companies to the trade and investment policies of GOI, (3) structure and motivation of foreign governments in their overseas development assistance to India, (4) policies on trade and investment as per GATT/ WTO, (5) trends in the inward foreign direct investments (6) exports including outsourcing from India, and (7) outward foreign direct investments from India.

III. VARIABLES OF GLOBALIZATION PROCESS

I. REGULATORY POLICIES OF THE GOVERNMENT OF INDIA (GOI): 1947-2004

Tracing the history of the policies of the GOI on international trade and investment reveals much on the globalization process in India. The early policies until around 1961 were quite liberal on trade and investment. Subsequently, from 1962 to 1977, the trade and investment policies were mainly driven by the needs of local industry and economy. From 1978, the policies were clearly towards liberalization of the economy, though they were implemented in small steps- The year 1991, however, was a major watershed in the liberalization and privatization process in India. And 2004 saw some slowing down of the liberalization and privatization process in India. The analysis of the major policies of GOI during 1947-2004 reveals much of these processes.

Industrial Policy, 1948; This policy was the foundation of industrial development in independent India. While emphasizing on public investment in the industrial infrastructure of the country, the GOI looked for foreign investments in the other sectors of the economy. Foreign investors were assured of unrestricted remittances of profits and dividends and foreign companies were treated on equal terms with the Indian companies. The Foreign Investment Statement (1949) was favorable to the foreign companies in India.

Industrial **Policy, 1956:** This policy reserved a few industries, based on the strategic nature of the industries, for public investments and the foreign companies were restricted from investing in these industries. However, the policy did not distinguish between the local companies and the foreign companies on other accounts. Following the foreign currency crisis in 1957-58, the GOI offered the foreign companies, several incentives, concessions and relaxed restriction on entry in some industries. Both the policy of 1948 and 1956 were such that foreign investments into India in this period steadily increased until 1961.

Foreign Exchange Regulation Act (FERA), 1973: According to Section (2) of FERA, 1973, all foreign companies that owned more than 40% equity in their Indian operations were required to get the permission of Reserve Bank of India to continue their business in India. The law required the foreign firms to include local participation in the equity of foreign companies in India. Depending on the nature of business, some companies were allowed to own 51% of equity and others were allowed to own 74% of equity. With this act, foreign companies were treated on par with Monopolies and Restrictive Trade Practices (MRTP) companies. The foreign companies also had to meet the export obligations under Industrial Licensing Guidelines, 1970 for MRTP companies.

Industrial Policy, 1980: Although, the *Industrial Policy Statement, 1977* had announced the relaxation in remittances of profits, royalties, dividends and repatriation of capital of foreign companies, the *Industrial Policy 1980* set the tone of liberalization in a slow but steady pace. Industrial licensing was streamlined and made easier. Provisions in MRTP Acts were modified to simplify business transactions. Export-Import norms were also changed. The GOI - transferred most of the items that were earlier imported through State Trading Corporation to Open General License (OGL), wherein these imports and exports could be routed through private firms. Increasing the number of items in the OGL meant a greater liberalization on the export and import of items to and from India.

Industrial Licensing Policy, 1991: The GOI was in trouble by 1990. Its foreign exchange reserve had reached to rock bottom. International Monetary Fund and World Bank agreed to provide loans on the conditions that India make major changes to liberalize trade and investments in India. The domestic pressure to meet the imports of essential commodities and the external pressure to liberalize forced the government to change its stance of protecting the domestic industries. That is how the *Industrial Licensing Policy, 1991* came into place. Industrial licensing was abolished except for 18 industries. FDI up to 51% were allowed in 34 high priority industries and the concept of phased manufacturing was removed. Custom duties on the imports were to be removed in a phased manner.

Trade and Investment Policies, 1994-95: In the Uruguay round of negotiations ofGATT 1994, India signed the agreement on trade related investment measures that has forced India to do away with protection of Indian industry from severe global competitions within five years. Of the 13 investment measures that were identified to distort global trade, India has been using as many as eleven of the measures to meet the myriad needs of social and economic development of the country. Signing of this agreement is bound to remove these much-needed measures. In the meantime the custom duties on imports have been steadily brought down as per the Industrial Licensing Policy, 1991. Subsequently, in January 1995, as a founder member of GATT, India joined WTO and agreed to stand by the regulatory framework of free global trade and competition.

Foreign Exchange Management Act (FEMA), 1999: FEMA, 1999 replaced the FERA, 1973 that regulated all foreign exchange transactions. The objectives of FEMA have been to facilitate external trade and payments and to promote orderly development and maintenance of foreign exchange market. All residents can now put foreign exchange on current account transaction through an authorized dealer. Foreign firms also qualify for this under the resident status. But for sectors like banking, NBFC and civil aviation, petroleum, real estate, venture capital funds, investing companies in infrastructure and service sector, atomic energy, defense, agriculture and plantation, print media, broadcasting and postal services, automatic approval of FDI is allowed in all other sectors. The role of Reserve Bank of India and Secretariat of Industrial Assistance has become more that of a facilitator.

Policy Indications of the Government of India, 2004: The policies of the GOI on privatization, liberalization, trade and investment will undergo some transformation if the newly elected United Progressive Alliance (UPA) government led by the Indian National Congress Party were to implement its polices. The National Democratic Alliance government led by the Bharatiya Janata Party that pushed for privatization of public sector companies in India and that liberalized trade and investments in India was rejected by the electorates in India in the General Elections, 2004. And, hence, we may see some reversals or slow down in the globalizarion process in India. The crash in the Indian stock markets following the Congress Party led alliance to gain majority in the General Election, 2004 was an indication that the foreign companies presumed policy reversal with the UPA government. The check on privatization of public sector Companies and increased government's investment into some of the public sectors companies in the recent months confirms some expectations of the policy changes in India.

2. RESPONSES OF FOREIGN COMPANIES TO THE POLICIES OF THE GOVERNMENT: 1947-2004

The responses of most of the foreign companies have been rather lukewarm until the regulations suited their entire purpose. Two American automobile companies, General Motors and Ford Motors had started assembling cars in India as early as 1928-30. They both enjoyed monopolistic position in India for more than 20 years till 1953. When the GOI passed a regulation for foreign companies to locally manufacture cars, these companies ceased their operations in 1953 and returned to India only in 1995 when the policies were favorable to them. In the 1960s, when the government advised foreign companies to include local participation in their existing equity, many foreign companies reacted adversely. Unwilling to abide by the government regulation to include local participation in its equity, Pepsi drinks ceased operation in India in 1961 shortly after starting its operation in 1956.

When the government informally suggested companies to invest in businesses like oil mills, fertilizers and chemicals, industries in which the GOI could not invest, many companies felt that investing in such unrelated areas would reduce their profitability. Most of these companies objected to the policy of the GOI and many of them left India. However, some companies like Unilever invested in oil mills and ICI invested in such priority areas of the country. These companies have had remarkable success in India.

The need for foreign exchange lead the GOI introduce policies such that the foreign companies had to export a portion of the local production to earn the royalty payments to the parent organization. This policy did not suit many foreign companies as many of them were in India to market their products produced in their home countries. For instance, between 1958-61, nearly 100 American companies had invested in different marketing, sales, and licensing activities in India with an objective to fill the demand of the local market. Companies like Unilever and ITC, however, started to export their products with the behest of the Government to generate foreign exchange for the host country.

The implementation of Foreign Exchange Regulation Act (FERA), 1973 came as a major setback to many foreign companies operating in India* Many companies that did not want to increase equity participation of Indians as per Section (2) of FERA, 1973 decided to cease their operations in India. As many as 54 companies applied to wind up their operations by 1977-78 since the implementation of the above Act in 1974 and nine companies wound up operations between 1980-81 (Annual Reports, Reserve Bank of India 1977-78, and 1980-81). Some well performing foreign companies like Coca-Cola and IBM ceased operations in India. For instance, IBM started operation in India in 1951 and set up a manufacturing facility in 1956. India was its largest business destination in the whole of Asia by 1976. However, it decided to close operation in 1978 with the new policy of the Government. IBM finally returned to India only after the economic liberalization in 1991. The typical responses of the foreign companies to the policies ofGOl is summarized in Table 1.

3. THE STRUCTURE AND MOTIVATION OF OVERSEAS DEVELOPMENT ASSISTANCE

In order to help India develop and integrate with the larger economy of the world, the industrially advanced countries have taken the pride on the various

Table 1: Policies of the Government and Responses of Foreign Companies

Period	Policies of Government of India .	Responses of foreign companies
1947-1961	Industrial Policy, 1948. Industrial Policy, 1956.	Nearly 60 US companies set up sales and marketing offices in India. Steady increase in FDI during the period: 1948 to 1961. General Motors, Ford Motors, Pepsi ceased operations in India.
1962-1976	Industrial Licensing Guidelines 1970, MRTP. Foreign Exchange Regulation Act, 1973.	Nearly 60 companies including IBM and Coke ceased operations in India.
1977-1990	Industrial Licensing Policy, 1977. Industrial Licensing Policy, 1980.	Limited FDI from the foreign companies.
1991-2004	Industrial Licensing Policy, 1991. Industrial Licensing Policy, 1999.	Flooding of FDI in India, especially in the services sector.

Table 2: Overseas Development Assistance from a Few Industrially Advanced Countries (In Million Units)

Country	Development Assistance	Nature	Priority Sectors	Conditions
UK	1975 289 Pounds 1958	Grants	Education, Slum improvement, Health, power, Poverty alleviation, and Forestry	Usually tied up with imports consultancy services and training from UK.
Germany	C. Credit: 417 DM; Loan: 55 DM and Grants: 42 DM	Commercial Credit, Soft Loans and Grants	Rural development, Agriculture, Human resource, Health and Education	Aimed at poverty alleviation, employment and reforms in Power Sector.
Netherlands	1962 NLG 78.56	Loans 50% and Grants 50%.	Environment/ Drinking water supply, and Irrigation	Grants are tied up with imports from the Netherlands.
Belgium	1962 B. Francs 119 (Annual Average)	Credit	Supplier's credit for import of capital goods	Tied up with imports from Belgium..
Switzerland	1964 Rs. 428	Grants	Improved land use, dairy farming, livestock production, environment, etc.	Provided in the form of technical assistance or in kind.
Denmark	1963 61.2 DKK	Grants and Loans	Private sector business (Wind Farm, Food Processing, etc.)	Tied up with imports.
Italy	1981 USD 7.2 (Annual Average)	Loans	Water treatment/ Environment, and Infrastructure	Provide technical services and equipments.
France	1968 FF41.32	Loans	Power, Coal, Railways, Water, Agriculture, Petroleum, Natural gas, and Mining	Tied up with imports of French Goods and Services. Contracts to be awarded to French companies.
Japan	Loans: 18926 Yen Grants: 350 Yen	Loans and Grants	Power, Railways, Fertilizer, Telecommunication, Industry and Irrigation, Poverty Alleviation	Tied up with imports from Japan. Since 1993-94 such terms are relaxed.
Australia	1951 Aus $20.5	Grants	Primary education, Water and Sanitation, Health, Environment	Provided in the form of technical assistance and equipment supply

Source: Compiled from the Ministry of Finance, Government of India.

Overseas Development Assistance (ODA) that they have extended to India over the last about six decades. However the structure and conditions of ODA to India from different countries clearly speaks of the intent and motivation of the foreign governments. ODA has come to India in three different forms, viz., soft loans, commercial credits and small grants. Loans and credits have been extended to India at rates that are usually at par or higher than the lending rates **in** the countries that provide these loans and credits.

The conditions of these different forms of ODAs reveal clearly the intent and motivation of the countries providing ODAs. For instance, Grants from UK have been tied up with imports, consultancy

Table 3: IDA/IBRD Funding on Some of the Major Projects in India: 1991-2004

Project Name	Year	Main Loan/ Credit mn US$	IDA/ IBRD Loans mn US$
Rural Roads Project	2004	47530	399.5 (0.84%)
MP Water Sector Restructuring Project	2004	47500	394 (0.83%)
Elementary Education Project	2004	38820	500 (1.29%)
Rajasthan Health System Development Project	2003	38670	89 (0.23%)
Tamil Nadu Road Sector Project	2003	47060	348 (0.74%)
AP Rural Poverty Reduction Project	2003	37320	150 (0.40%)
AP Community Project	2002	36920	108.2 (0.29%)
Karnataka Community-based Tank Management	2002	36350	98.9 (0.27%)
Rajasthan Water Sector Restructuring Project	2002	36030	140 (0.38%)
Karnataka Watershed Development Project	2001	35280	100.4 (0.28%)
Integrated Watershed Development—Hills	1999	44920	135 (0.30%)
UP Sodic Lands Reclamation Project	1998	31520	194.1 (0.61%)
Kerala Forestry Project	1998	30530	39 (0.12%)
UP Forestry Project	1997	30180	52.94 (0.17%)
Eco-development Project	1996	29160	28 (0.09%)
Orissa Water Resources Consolidation Project	1995	- 28010	290.9 (1.03%)
Tamil Nadu Water Resources	1995	27450	282.9 (1.03%)
Haryana Water Resources Consolidation Project	1994	25920	258 (0.99%)
Forestry Research Education and Extn. Project	1994	25720	47 (0,18%)
Andhra Pradesh Forestry Project	1994	25730	77.4 (0.30%)
Uttar Pradesh Sodic Lands Reclamation Projects	1993	25100	54.7 (0.21%)
Karnataka Rural Water Supply and Env, Project	1993	24830	92 (0.37%)
Maharashtra Forestry Project	1992	23280	124 (0.53%)
industrial Pollution Control	1991	33340	155.6 (0.47%)
Maharashtra Rural Water Supply and Env. Project	1991	22340	109.9 (0.49%)

Source: Compiled from the World Bank Croup Homepage, September 30, 2002 and December 20, 2004.

services, and training from UK. Commercial credits and soft loans from Germany has been tied up with reforms in power sector in India. France, Belgium, Denmark, and Japan have tied up their ODAs with imports to India from their respective countries. France also ensured that the contracts of the project chat they fund have to go to the French companies. Switzerland, Italy and Australia provide ODAs to India in the form of technical assistance and other kind. The terms and conditions on the Overseas Development Assistance which highlights the intent and motivation of ODAs from some countries are illustrated in Table 2.

The World Bank that is largely financed.by the industrially advanced countries is also known to have provided loans to various development projects in India. In reality, the highly talked about loans from the World Bank Group concerns like International Development Agency (IDA) and International Bank for Reconstruction and Development (IBRD) are only a small component of the total project cost. The contributions of these agencies on most of the projects constitute no more than 1 % of the total cost of any project. The commitment of these agencies towards the development objective of India therefore seems to be doubtful. The share of contribution of these agencies on some important projects in India during 1991-2004 is shown in Table 3.

4. GATT/WTO POLICIES ON TRADE AND INVESTMENT

There have been some studies in general on whether the trade related investment measures of the member countries have had any negative impact on global trade. In the past studies, the general observations and findings on the impact of TRIMS suggest that the agreement on TRIMS as reached in Uruguay Round is inconsistent **in** its argument on TRIMS (UN. 1991. DeLuca. 1994, Baldwin, 2001). Further, the agreement on TRIMS has not considered the restricted business practices of foreign companies in the developing host economies (Morrissey and Rai. 1995) and that TRIMS has not had any distorting effect on developing economies like China (Yu and Chao, 2000).

Table 4: Trade-related Investment Measures and the Reasons

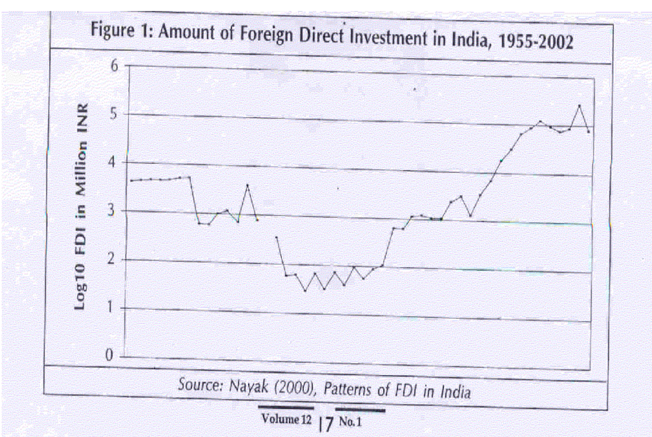
Trade Related Investment Measures	**On Account of**
• Trade balancing requirement * Foreign Exchange requirement balancing requirement • Exchange restrictions • Export performance requirement • Remittances requirement	Reduce the Balance of Payment problem
• Local content requirement • Manufacturing requirement • Licensing requirement • Technology transfer requirement	Increase productivity and competitiveness in the industry
• Local equity requirement • Manufacturing limitations	Facilitate ownership of local public

In general, the trade and investment policies ofGATT/WTO have had a mixed impact on the overall objectives of India since the 1950s (Nayak, 2003). Foreign investments have been rather skewed towards extraction of natural resources in the period prior to 1947 (Nayak, 2000). The historical observations during the last five decades clearly show the clash of development objectives of India with the growth objectives of foreign firms in India (Nayak, 2004).

India has adopted several trade related investment measures to reduce its Balance of Payment (BOP) problem. to improve productivity and competitiveness in the Indian industry, and to facilitate the local ownership of Indian public. We classify the various measures and the probable reasons for doing so. The classification of the measures are shown in Table 4. However, as per the Article III (national treatment) and XI (prohibition of quantitative restrictions) of the GATT, India has been asked not to adopt these policies and to remove these provisions within five years from January 1, 2005 (agreement on TRIMS, GATT 1994, wto.org). Given the nature of Indian economy, such policies can have an adverse impact on India.

5. INWARD FOREIGN DIRECT INVESTMENTS

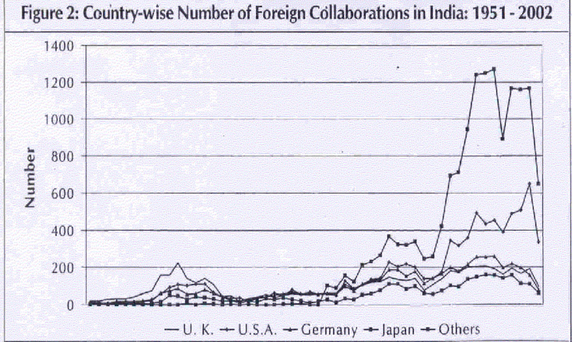
The GOI has been formulating policies such that foreign investments are made in the manufacturing sectors, the core of economic and social development in India. Foreign Direct Investment (FDI) in the manufacturing sector increased from 40% in the 1950s to over 90% by 1990. The amount of FDI to India grew significantly during the mid-1940s and reached a peak in 1961. Subsequently, as the GOI introduced the policies for foreign investments in the local manufacturing companies, many of the. foreign companies withdrew from India. Finally, foreign investments started to increase with the liberalization policies of the government from around 1978. Foreign investments in India rose sharply from 1991 following the liberalization policies of the government. The post 1991 foreign trade and



investment policies have, however, substantially increased foreign investments mainly in trading, marketing, business process outsourcing, clinical services, stock markets and other marketing ventures. The trend in the amount of FDI during the period 1955 to 2002 is shown in Figure 1.

Surprisingly, the share of investment of other smaller nations including nations from Asia, Oceania and European Union has sharply increased in recent years. The shares of investments of UK, USA, japan, and Germany, the traditional investors in India have substantially reduced during recent years. We find that the countries within the Asian region have actually contributed the most to the FDI in India in the recent years as against the general perception that most of its FDI is from the highly advanced economies of the world. Figure 2 illustrates the trend in the country-wise share in the number of foreign collaborations in India during the period, 1951 to 2002.

Figure 2: Country-wise Number of Foreign Collaborations in India: 1951 - 2002

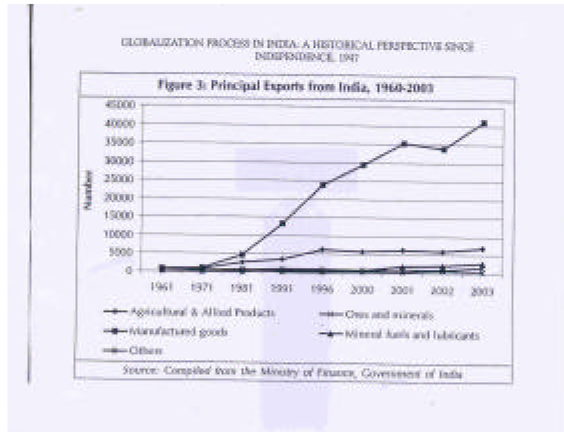


Source: Compiled from the Monthly News Letters, 1967-1990, and India Investment Center, 2004

6. EXPORTS INCLUDING OUTSOURCING FROM INDIA

The amount of exports, the nature of exports and the kind of outsourcing can be looked at to explain the degree of globalizadon of India. The nature of exports will indicate how competitive the Indian industry has been and whether the global economy depends on India just as Indian economy depends on the global economy. Of principal exports during the period 1960-2003, export of manufactured items has been a major component of Indian exports. However, the basket of manufactured items consists of low value items like textiles, yarn, handicrafts, garments, leather, chemicals, gems and jewellery, and simple and low technology based machinery. The exports value of major principal items of exports during the period 1960-2003 is shown in Figure 3.

A large portion of foreign investment has come to India for outsourcing purposes. Cheap and - skilled labor, intense competition, saturated markets and thin margins have compelled countries to



outsource their supplies/services from countries like India. The major areas of outsourcing from India have been information technology, software. pharmaceuticals textile, auto components, and other backend services. An estimated $5 bn worth of low value engineering goods, auto components, pharmaceutical products and textiles products have been outsourced from India over the past four years. However, none of the outsourced items are unique to India, and hence, are not sustainable over a long period of rime as other low economies can offer these products and services.

7. OUTWARD FOREIGN DIRECT INVESTMENT FROM INDIA

Outward foreign direct investment from India is a good measure of the extent of productivity and competitiveness of the Indian industries. Outward FDI is therefore a good estimator of the extent of globalization of Indian companies in the global economy. It has been rather a recent phenomenon with the outward FDI amounting to only US $10 mn in the year 1990. The total amount of outward FDI increased to US $500 mn in the year 2003. Figure 4 shows the trend in outward FDI during the period 1997-2003. Although. there has been some increase in the amount of outward FDIs from India in the recent years, these FDIs have been mainly in the basic and commodity products. The nature of outward FDI also indicates that the Indian enterprises have not achieved the required productivity and competitiveness in the global economy.

IV. SUMMARY AND CONCLUSION

The overall analysis of the seven variables of globalisation process discovers **the**

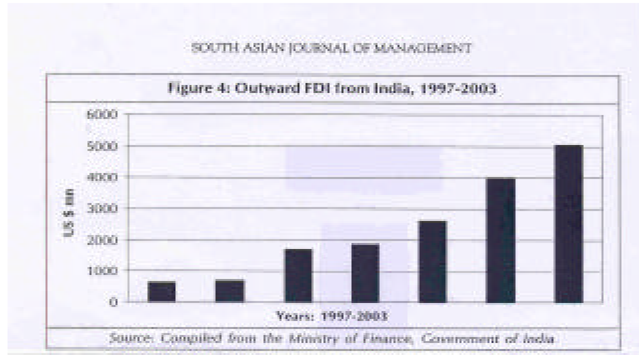


Figure 4: Outward FDI from India, 1997-2003

Source: Compiled from the Ministry of Finance, Government of India

meaning of globalization with reference to India. India tried to integrate with the world economy as soon as it became a sovereign state but with its own terms and conditions. However, over these years, India has slowly been pressured by the several external forces like the foreign governments, foreign corporations and international agencies to integrate on their terms. The roots of the present globalization process in India lie way back in thel980s. India started to liberalize trade in 1977-78. This open policy increased the number of items in the Open General License (OGL).

Most importantly, we find that Globalizadon with reference to India has been more of globalization in India and less of globalization of India. In other words, globalization has been only a one-way process that is foreign enterprises have found a favorable way to do business in India since Independence. Foreign companies have invested in India only when the policies of the GOI have favored either the market seeking or the efficiency seeking objectives of the foreign firms. The foreign firms have either left India or critiqued India otherwise.

From the historical observations, it is imperative that the GOI, the foreign companies and the governments of other nations have to recognize and respect the need for both Globalization of India and globalization in India in order to ensure that the globatization process takes off in a balanced and sustained manner. Hence, while undertaking policies on liberalization of Indian economy, the GOI has to take care that liberalization does not lead to globalization of India alone as it has been presumed in the past 15 years.

The policies of the GOI should be able to direct foreign direct investment into manufacturing sector and high technology areas through which the Indian economy can effectively be part of the globalization process worldwide. With similar framework of our study, further research may be conducted on other developing countries in Asia to enhance our understanding of globalization process in other countries of Asia.

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