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Original Article

Globalization and its Impact on Indian Economic Development

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Abstract

Globalization has played an important role in changing the Indian economy after 1991. Before 1991, India followed a closed economic system with high government control and limited foreign trade. Due to a serious economic crisis in 1991, the government introduced the New Economic Policy under Prime Minister P. V. Narasimha Rao and Finance Minister Dr. Manmohan Singh. These reforms opened the Indian economy to the world. This paper studies the impact of globalization on Indian economic development during the last three decades. It explains how globalization increased GDP growth, foreign investment, exports, and development of the service sector. It also discusses some negative effects such as income inequality, unemployment in some sectors, and exposure to global economic crises. The study is based on secondary data from books and reports. The paper concludes that globalization has helped India grow economically, but proper policies are needed to ensure that development benefits all sections of society.

Keywords: *Globalization, Indian Economy, Economic Development, New Economic Policy 1991, Foreign Direct Investment, Inclusive Growth*

Introduction

Globalization means the connection of countries through trade, investment, technology, and communication. It allows goods, services, money, and ideas to move from one country to another more easily.

In India, globalization became important after the economic reforms of 1991. Before that, India followed a policy of high government control, import restrictions, and limited foreign investment. The economy was not fully open to the world market. The year 1991 became a turning point in India's economic history. Since then, the Indian economy has changed in many ways. This paper explains how globalization has affected India's economic development.

Background of New Economic Policy (1991)

In 1991, India faced a serious economic crisis. The country had very low foreign exchange reserves. It did not have enough money to pay for imports like oil and essential goods. Inflation was high, fiscal deficit was increasing, and economic growth was slow.

During this time, the government was led by Prime Minister P. V. Narasimha Rao. Dr. Manmohan Singh, who was the finance minister, introduced major economic reforms to solve the crisis.

The situation became worse because of the Gulf War in 1990–91, which increased oil prices. India's foreign exchange reserves fell to a very low level, enough to cover only a few weeks of imports. India had to take help from the International Monetary Fund (IMF).

To improve the situation, the government introduced the New Economic Policy (NEP) in 1991. This policy is also known as LPG reforms — Liberalization, Privatization, and Globalization.

The main objectives of LPG were:

1. To reduce government control over industries
2. To allow private sector growth
3. To encourage foreign investment
4. To promote exports
5. To make the economy more competitive

Industrial licensing was reduced, import duties were lowered, and foreign companies were allowed to invest in India. These reforms opened the Indian economy to global markets and started the process of globalization.

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Objectives of the Study

1. To understand globalization in the Indian context.
2. To study the impact of globalization on India's economic development.
3. To examine changes in different sectors of the economy.
4. To identify positive and negative effects of globalization.

Research Methodology

This paper is based on secondary data. Information is collected from books, research articles, and reports of institutions such as the World Bank and IMF. The study focuses on long-term economic changes after 1991.

Impact of Globalization on Economic Development

After 1991, India's economic development improved compared to the earlier period. Trade restrictions were reduced and industries got more freedom. This helped increase production and investment.

Foreign Direct Investment (FDI) increased in sectors like automobiles, telecom, banking, and information technology. Foreign companies brought new technology and better management systems.

Exports also increased. India became a major exporter of software and IT services. This helped India earn more foreign exchange and strengthen its economy.

Changes in Different Sectors

Globalization brought major changes in the structure of the Indian economy.

The service sector grew very fast. Today, it contributes the highest share to India's GDP. IT companies, online services, banking, and business services expanded because of global demand.

The industrial sector also improved due to foreign investment and modern technology.

However, agriculture's share in GDP declined, even though many people still depend on farming. This shows that development has not been equal in all sectors.

Employment and Income Distribution

Globalization created new job opportunities, especially in cities and in skilled sectors. Many educated young people got jobs in multinational companies and IT firms.

However, some small and traditional industries faced strong competition from foreign companies. This affected employment in certain areas.

Income inequality has also increased. Skilled workers earned more, while unskilled workers did not benefit equally. There is also a gap between urban and rural areas.

Challenges of Globalization

Globalization has connected India to the world economy. While this gives opportunities, it also creates risks.

1. Income Inequality

Globalization has increased the gap between rich and poor people.
Skilled workers earn higher salaries than unskilled workers.
Urban areas grow faster than rural areas.
This creates economic imbalance in the country.

2. Pressure on Small Industries

Small and local industries face tough competition from foreign companies.
Multinational companies have better technology and more capital.
Many small businesses struggle to survive.
This affects employment in traditional sectors.

3. Dependence on Global Economy

India is more connected to international markets.
Global financial crises can affect Indian exports and investments.
Sudden withdrawal of foreign capital can create problems.
This makes the economy vulnerable to external shocks.

4. Job Insecurity

Global competition increases pressure on companies to reduce costs.
Some industries shift production to other countries.
Workers may lose jobs due to automation and competition.
This creates uncertainty in employment. Therefore, proper government planning and strong policies are necessary to manage these challenges.

Conclusion

Globalization has played a major role in the development of the Indian economy since 1991. The New Economic Policy introduced by Prime Minister P. V. Narasimha Rao and Finance Minister Dr. Manmohan Singh changed the direction of India's economic system.

Globalization helped increase economic growth, foreign investment, exports, and development of the service sector. India became more competitive in the global market.

At the same time, challenges such as income inequality, employment problems in some sectors, and exposure to global risks have also increased.

Overall, globalization has supported India's economic development. However, balanced and inclusive policies are necessary to ensure that the benefits reach all sections of society.

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Conflicts of interest

The authors declare that there are no conflicts of interest regarding the publication of this paper

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