

EXTENT OF GLOBALIZATION IN INDIAN ECONOMY AND ITS IMPACT ON NORTH-EASTERN REGION

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ABSTRACT

The concept of globalization has generated significant place in the Indian economy. India opened up the economy in the early 90s to overcome the major crisis that led to foreign exchange crunch that dragged the economy close to defaulting on loans. The new economic policy of Liberalization, privatization, and Globalization (LPG) move the economy to a more open and market oriented economy. This paper is an attempt to focus the “Extent of globalization and liberalization process on the Indian economy and it’s impact on North-Eastern Region”. This paper content four segments first part of the paper is introductory and it explains the meaning of globalization. Part two deals the major polices of globalization. Part three describes the extent of globalization with some specific indicators. Part four describes the potential of North-East in the era of globalization. In the end findings and conclusion of the paper has been discussed.

Keywords: Globalization, Indian Economy, Economy.

Part –I

I. INTRODUCTION:

Globalization is a system, which is dictated by an ideology. The ideology is that of “Market Forces Economics” where the invisible hand of the market mechanism is allowed to operate unimpeded. Globalization is growing interconnectedness and interdependence of the human community. The four actors who have been the main players in this connection are:-traders, preachers, adventurers and warriors/ colonizers. As a part of this ideology in theory all countries face new international trade rules and regulations. These rules are set jointly by the members of world trade organization (WTO) but documented by the interest of the transitional corporation. Today the phenomenon of globalization attracted world attention in various ways and has emerged as perhaps the most dominant force in the global system of economics with significance ramification in all other spheres of contemporary human existence. Globalization has enhanced effectiveness and efficiency in economically integrated market places and has positively improved connectivity.

The process of increasing interconnectedness between societies such that events in one part of the world, increasing have effects on people and societies far away. It is also a social process, to attain harmonization where economic and Technological power is used to control Political power¹. Please refer Chart 1.

II. DEFINITION:

Different scholars have given a variety of definitions of the globalization. According to Malcolm S. Adiseshiah, “globalization of the economy may be defined as the global dimension of the evolving world economy” This term covers all facts of life –economic, political, social and cultural. It means not merely looking at every fact or problem internationally, that also be taken in to consideration not merely looking at issue from a world point of view , that too is part of the process it means that the global dimension is emerging and has emerged as a reality of today.

World Bank defines “globalization as:-

(a) Gradual abolishment of import control over all items including consumption goods, (b) reducing the rate of import duty and privatizing public sector units².”

III. OBJECTIVES:

The main objectives of this paper is-

- (a) To show the major policies of globalization
- (b) To highlight the extent of globalization with some specific indicator.
- (c) To highlight the Potential of North-East in the era of globalization.

Part-II

IV. MAJOR POLICIES OF GLOBALIZATION:

Indian economy was in deep crisis in 1991 there was large imbalance on internal and external accounts. There are many reasons to move towards globalization. The crises in balance of payment , the growing fiscal gape, double digit inflation, sudden depletion of foreign exchange reserves , recession in industry ,and erosion of international confidence in India’s credit worthiness. To overcome these problems there was a need to change our economic policy structure and adopt polices of liberalization and globalization. Major reforms initiated as a part of the liberalization and globalization strategy in the early nineties included the following-

A.DEVALUATION:

To resolve the Balance of payment problem, Indian currency was devalued by 18-19 % against major currencies in the international foreign exchange market. This was the first step towards globalization.

B.DISINVESTMENT:

Under this scheme, most of the public sector undertakings have been sold to private sector. The main aim of this was to improve efficiency and quality, of this units.

C. ALLOWING FOREIGN DIRECT INVESTMENT:

FDI has played an important role in accelerating the pace of economic growth. The government has established a liberal and transparent foreign investment regime where more activities are opened on automatic route without any limit on the extent on foreign ownership. Some of the recent initiatives taken to further Liberalize the FDI regime are opening up of sector such as insurance (51%), development of integrated townships (100%), defense industry (upto 26%), tea plantation (upto 100%) subject to 26% within five years of FDI), enhancement of FDI with limits in private sector banking , allowing FDI up to 100% under automatic route for most manufacturing activities in SEZs, opening up B2B e-commerce, internet services providers (ISPs) without gateways, electronic mails and voice mails got 100% foreign investment subject to 26% disinvestment condition etc.

D. DISMANTLING OF THE INDUSTRIAL LICENSING REGIME:

On the account of environment safety and strategic consideration only three industries are kept under public sector. Moreover no industrial approval is required from the government for locations not following within 25kms of the periphery of cities having population of more then one million.

E. NON RESIDENT INDIAN SCHEME:

The general policy and facilities which is available for FDI or foreign investor or companies, are fully applicable to NRIs. Government has also extended some concession especially for NRIs and overseas corporate bodies having more then 60% stake.

F. ABOLITION OF THE MRTP ACT:

According to the act each unit need prior approval for capacity expansion. This was abolished.

G. Several steps have been taken for financial sector reforms in the banking, capital and insurance sectors including the deregulation of interest rates, strong regulation supervisory systems and the introduction of foreign or private sector competition.

H. Measures adopted for globalization of international finance companies governed by Foreign Exchange Act have been allowed to borrow or accept deposits without the permission of the RBI. These are allowed to invest in Indian institution like RBI, have sold India resurgent bonds to mobilize foreign capital. Many facilities have been offered to foreign banks to establish themselves in India³.

Part-III

V. EXTEND OF GLOBALIZATION:

Globalization of the economy increased interdependence and competition among economics in the world market. These reforms have yielded the significant benefits. Globalization of the Indian economy has showed a favorable impact on the overall growth performance of the economy. Indians annual growth rate was 5.5% in 1981-82, 1.4% in 1991-92 shot up to 9.6% in 2006-07. This growth rate has improved Indians global position but it is still lower then the growth rate of China, Korea and Indonesia. Similarly during sixth and seventh plan the annual average growth rate per capita of Net National Product (NNP) was 3.3% respectively it become 6.1% during 10th plan period. Sectoral share in national income during the post reform not only increased India's GDP but also Sectoral contribution in the national income has become the growth driver of the economy⁴. This globalization process shows the important changes in the economy. Mainly three indicators are discussed to show the extend in the economy, these are-

- (a) Increase in Foreign investment
- (b) Increase in foreign trade
- (c) Globalization of Capital

A. INCREASE IN FOREIGN INVESTMENT:

There has been a considerable increase in foreign investment. In 1991 FDI was US\$ 97 million portfolio investment was US\$ 6 million. It becomes US\$ 19531 million and US\$ 7003 million respectively. In 2006-07 total foreign investment was US\$ 26534 million during 2006-07 which is 2.9% of total GDP. The share of foreign investment in GDP has also increased. During 80s and 90s it was negligible but after 2001 its share has increased for more than 1% and in 2006-07 it was 2.9% of GDP.

B. INCREASE IN FOREIGN TRADE:

As a consequence of globalization in the world trade has gone up. India's share in the world trade was 0.53% in 1990-91. In 2006-07 it touched 1%. However, many other economies of the world like China, Hong Kong, Singapore etc. have larger share in world trade than India.

The Table –I shows the share of export as percent of GDP was 5.7 which increased to 13.9% in 2006-07. Similarly in the case of an increase in imports. It is 21.1% of GDP which is largely due to heavy import of oil. However, now India is in a position to pay for its imports.

C. GLOBALIZATION OF CAPITAL:

India performed well in the globalization of capital. In 1980-81 total foreign capital authorized was Rs.3847cr. of which actual utilization was Rs.2162cr. On the contrary in 2000-01 total foreign capital authorized was Rs. 18125cr. and in 2006-07 authorization of capital is Rs.31723cr. and the utilization being Rs.19288cr. Rise in the utilization of foreign capital is a sign of the progress of globalization of Indian economy⁵. Foreign exchange reserves have also increased substantially.

The Table –II shows in 1980-81 reserves of India amounted to Rs.4822cr. This covers five months of imports. In 1990-91 situation became critical and reserves were able to cover only 2.5 months of imports. But in post reform scenario reserves have shown good performance. In 2006-07 it becomes Rs.8,36,597cr. sufficient to cover 12.4 months of imports. It reflected a strong strength of the external sector with a sizable accumulation of India's foreign exchange reserves. During 2007-08 India has Rs.11,96,023cr reserves.

D. GROWTH PROSPECTS:

Since 2003-04 there have been quite a few studies projecting sustained high growth of the Indian economy in the long-run including the Goldman Sachs “BRICs” report (Wilson-Purushothaman, 2003)⁶, Rodrik-Subramanian (2004)⁷ and Kelkar (2004)⁸. Their specific projections and time-periods differ: Goldman Sachs foresaw near 6 percent growth for 50 years; Rodrik-Subramanian projected a minimum of 7 percent for the next 20 years and Kelkar was even more optimistic with his growth expectation of 10 percent.¹¹ More recently, with a three-year 8 percent average already achieved and the current year likely to register a similar rate the Government’s Planning Commission (2006) has outlined GDP growth projections for 2007-08 and 2011-12 of 8 to 9 percent. Bhalla (2007, forthcoming) goes further and foresees 10 percent growth as almost inevitable. Most probably, the majority of serious economists in India would today expect economic growth in the medium term (say, 2007-12) to average at least 8 percent. Such optimism is not wholly misplaced. The especially globalization and “catch-up”, the demographic dividends, the rising middle class, a vibrant entrepreneurial culture, positive expectations of future economic reforms and a generally caring international economic environment. They simply expect the growth-enhancing tendencies to prevail or, more subtly, for the dynamics of growth to generate solutions to constraints such as infrastructure and education⁹. The Figure-I provides encouragement to the bullish outlook of the India’s GDP growth in 1955-2007.

From Figure-I it is observed that there is a good chance that the currently optimistic view of growth expectations is overly influenced by the recent past (2003 onwards), a period of strong cyclical upswing in both the global economy and Indian industry. The strength of the cycle could abate in the next couple of years and India’s growth could revert to a trend rate in the range of 6 to 7 percent, perhaps closer to the higher figure. Under this “pessimistic” scenario, annual per capita growth would be at a historical peak for India this is shown in the Table-III.

From the Table-III, it is observed that, perhaps, the most notable point is that medium-term growth expectations for India are so buoyant that the range between optimists and pessimists is placed so high, within a fairly narrow group of about 7 to 9 percent. Only time will tell who is closer to being right.

While analyzing the process of globalization initiated in India under structural adjustment programme since 1991, it is clear that Indian economy has achieved tremendous growth prospects under the new regime. It has led to the entry of

foreign capital, expansion of Indian trade beyond domestic boundaries, growth in service sector and resultant generation of employment opportunities etc. Above all India now stands among the fast moving nation states of the world economic giants. However, the projected growth path which India moves is not free from its on inherent limitations. The macro economic trends show high level of regional imbalance and socio economic backwardness since the inception of economic liberalization. **For example, Northeastern states in India are lagging behind other states in terms of per capita income, industrial growth foreign investment and infrastructure.** Even after 60 years of planned economic strategy we failed to provide basic infrastructure and resource base to this geographically isolated and ethnically sensitive region. As a result Northeast lagged behind other states, when the entire mainstream economy was moving ahead with market led growth strategy. Balanced and sustainable economic growth under globalization will not be possible unless the burning issues of regional imbalance are tackled with effective policy framework. In this context the present paper attempts to analyze the 3rd objective of potential of Northeast in the context of economic liberalization and transnational co-operation. The paper argues that the need for a holistic and inclusive policy towards NER should focus on three aspects-Political, Economic, & Transnational. But this paper focuses on Economic aspect only.

Part-III

VI. POTENTIAL OF NORTH-EAST IN THE ERA OF GLOBALIZATION:

Indian economy is increasingly getting integrated with the world after economic liberalization through FDIs capital flow and trade. This has opened up new avenues for exporters, entrepreneurs and businessmen across the country. An industrial and export boom is underway now as export business are so vast and attractive. After joining WTO our country has been trying to penetrate more and more in the global market and also encouraging all types of enterprises. In the New Foreign Trade policy of 2004 also the Government of India continues to focus on the traditional thrust area of agriculture, handicrafts, handlooms gems and jewelers leather foot wears etc. Since northeast has a wide untapped resource based on handicrafts and handlooms, the region has unparalleled growth prospects under the new market economy spearheaded by liberalization strategies. The region is well reputed for its mineral deposits, forest products, medicinal plants, horticultural products, traditional handlooms and handicrafts items etc. These items can substantially improve its economic development process through effective participation in global trade and commerce. The region has 98% international borders with Bangladesh, Myanmar, China, Bhutan and

Nepal for which it can also develop boarder trade with the neighboring countries¹⁰. Another thrust towards Northeast is initiated with Look East Policy. As part of Look East Policy, India is now one of four summit level partners – along with China, Japan and Korea – of the Association of South East Asian Nations (ASEAN). Trade between India and ASEAN countries is expanding significantly. India has signed free trade area (FTA) agreements with Thailand and Singapore; there are plans to create a free-trade area with Brunei, Indonesia and Malaysia by 2011 and with the remaining ASEAN countries – the Philippines, Cambodia, Laos, Myanmar and Vietnam – by 2016. There are a number of structures of sub-regional cooperation in place including the Mekong-Ganga Cooperation (MGC) and BIMST-EC (Bangladesh, India, Myanmar, Sri Lanka, and Thailand – Economic Cooperation). Outside of ASEAN, bilateral trade between India and China has improved significantly and Prime Minister Manmohan Singh's proposal for an Asian economic community – to include ASEAN, China, Japan, Korea and India – generated significant excitement at last year's third ASEAN-India summit¹¹. In this context Northeast region has been seen with a new vigor vitality and optimism. According to Rajiv Sikri, Secretary East of the Ministry of External Affairs, the Look East policy 'envisages the Northeast region not as the periphery of India, but as the centre of a thriving and integrated economic space linking two dynamic regions with a network of highways, railways, pipelines, transmission lines crisscrossing the region.

Economic integration with South East Asia and its immediate neighbors offers enormous growth potential for Northeast. If the hydroelectric potential is utilized effectively, the region can export the resource to its trans-national trade partners. Apart from those petroleum products, cement, fresh fruits etc open up scope for rejuvenation of the economy and will make it a viable investment destination. However there exists certain bottlenecks which ultimately curtail the promising future of northeast .Ethnic conflicts and insurgencies, presence of paramilitary forces, tight security apparatus, under developed physical infrastructure, lack of entrepreneurial spirit, lack proper marketing channels etc pose serious challenges to the development of northeast. A broad based inclusive strategy can address these challenges and lead the regional economy towards sustained economic growth and social development. The following sections discusses in detail the economic dimensions and policy paradigm which is required for rejuvenation of Northeast in the era of globalization.

VII. ECONOMIC DIMENSIONS:

A. NEED FOR MARKET BASED APPROACH:

In a liberalized economy, any new policy has to be based on some kind of a market-oriented approach. The new policy framework in Northeast should, consequently, concentrate more on economic factors. The economic factors include labor cost, comparative advantages, technology, efficiency and returns on investment. Inefficient economic processes and barriers to market entry make a critical economic difference and will define the distinctions between success and failure. The market approach generally assumes economic rationality, and the atomized individual, whether firm or person, as the crucial economic actor. In this approach, the economic system is an aggregated outcome of the production, exchange and consumption of goods and services, and social order is premised to emerge from the self-interested rational actions of individuals¹². The development strategy followed by the Centre and the State governments of the region has created a totally unbalanced economy in the Northeast. There are differences among the seven States of the region with respect to their resource endowments, levels of industrialization as well as infrastructural facilities. On the whole, all these economies are underdeveloped agrarian societies with very weak industrial sectors and inflated service sectors. So there is an urgent need for developing market based approach in Northeast.

B. HUMAN RESOURCE DEVELOPMENT:

Another area of concern is developing human resource base in northeast. Educated unemployment rate is very high in Northeast region which ultimately force frustrated youth to join insurgency groups. On the other hand if we could utilize the untapped human potential in knowledge based economy it can rejuvenate the economy in a long run. In the era of booming software industry and Business Process Outsourcing [BPO], English educate youth will be a positive advantage. But it requires adequate investment in enhancing particular skill and training for educated youth in tune with the requirement of the globalized market. There has been virtually no direction in terms of man power planning and training. Thus Northeast youth must be allowed opportunities to acquire relevant skills so that they become marketable in the highly competitive employment market world. Perspective plan for the region must take care of this reality. Another strategy is the protection, preservation and propagation of indigenous technology and knowledge systems.

C. ENCOURAGING MNCs :

In the era of globalization it is important for Northeast to encourage FDI through MNCs. Prior to 1998, the scenario of industrial sector in the Northeast was limited to some small-scale sector except the oil, tea, and plywood and some state owned public sector units. But in present days, a number of multinational companies have come to set up industries either themselves or through franchise. The New Industrial Policy of North East offers competitive advantages to foreign investors in settings up industries. Northeast offers certain unique opportunities for investment and the region has a favorable investment environment. There is a perceptible air of optimism, which was missing till few years back¹³. Proximity to Southeast Asian countries gives immense market potential to MNCs operating in the region. Direct foreign investment up to 100 per cent equity in a business venture is being allowed on a wide-ranging basis. In a very liberal investment atmosphere, the benefits for MNCs in India's Northeast is very high. States should take initiatives to allot lands on lease for companies and to exempt it from sales tax. There should be initiatives for building new industrial parks and special economic zones with all infrastructural facilities. Some of the companies have already started bold steps towards penetrating the region. North East Pure Drinks, a franchise of the Pepsi, was the first MNC in the Northeast region. This has an investment of Rs. 450 million. Having different products like mineral water, juice, and soft drinks, this company has started a new industrial climate in this region. Like North East Pure Drinks, many other companies like Cosmo, a franchise of the Joolen International from America has also set up a unit for the production of toothpaste, hair dye, and shampoo. In a very short span of time the turn-over has increased many folds. The company has started trading products inside and outside India. In the financial year 2002-03, the total export of this unit is around Rs. 600 million¹⁴. Prominent MNC, M/s Glaxo Smith Kline Consumer Health Care has also set up a Horlicks Processing & Packaging Plant at Mongaldoi with an investment of Rs. 60 million and employment of 100 persons in franchisee with M/s SRD Nutrients. Thus there should be combined effort from state- central governments and civil society to encourage MNCs and domestic investments in the region to tap the underutilized potential of northeast resources.

D. DEVELOPMENT OF PHYSICAL INFRASTRUCTURE:

The Physical infrastructure including road rail and air connectivity is a serious problem in northeast. Any viable revivalist policy should therefore focus on the building up of the infrastructural facilities. Good roads that perform uninterrupted and link all the cardinal points need to be built and well maintained. All the state capitals and district headquarters could be linked with good road

networks. Currently a major part of the region has kasha roads which are of no use during monsoon season. NEC has built almost 8000kms of road in northeast. These have to be maintained. The up-gradation of road network by the Union Ministry of Surface Transport along with the improvement of 1300kms of road under ADB project could provide smooth flow of goods and passenger movement. Moreover as a policy the meter gauge railway lines that continue to exist in the railway lines need to be replaced with broad gauge. In the coming years, the network of railways could be extended to reach state capitals and connect a few major international trade centres with adjacent countries under the Look East Policy thrust¹⁵. Meghalaya and Sikkim has not yet linked with Railways. There should be immediate policy initiative in this regard. Since the distances are long rainfall is heavy landslides are frequent and the population density is low the air services can play significant role in providing connectivity throughout the region. All the state capitals need to get connected with air network. Several national airlines are already operating in the region. But it should be cost effective reliable and customer centric. Non-functioning airports should be rebuilt immediately for providing transport linkages. With the opening up of international trade between the adjacent countries another international airport might become necessary.

E. TOURISM:

The region offers possibilities for tourism industry especially ecotourism adventure based tourism and cultural tourism. There is also scope for internal and external collaboration in tourism. Both central and state government should take initiatives to attract investments in tourism based industries and marketing strategies to invite tourists from neighboring countries. As has been formulated in states like Andhra Pradesh, Orissa, Goa, Kerala, special action plan for the growth of tourist sites is required to be given shape in the region. With its famous reservoir of bio diversities the region may aspire to earn good amount of revenue and other lateral benefits like direct and indirect employment from this neglected sector. It is important to note that long tern scheme for growth of tourism in the region would be more rewarding and cost effective if all the constituent states participate and cooperate in this endeavor¹⁶.

F. DEVELOPMENT OF ENTREPRENEURSHIP:

Though the region is rich in natural resources, such as petroleum, natural gas, coal, forest products bamboo etc, it has been still treated as industrially backward region of the country. It will be apparent from the fact that there are less than 3 per cent of the country's large and medium industries and less than 2 per cent of small industries in the region. It would be important to identify the

social and cultural factors which hinder the development of entrepreneurship in northeast. Cluster development for small scale industries, development of SEZs, training and assistance for local entrepreneurs, insurance policy for investors, credit delivery etc will play vital role in development of entrepreneurial culture in the region.

VIII. FINDINGS & CONCLUSION:

The findings of the overall analysis of the study on globalization show a positive trend in the economy. The GNP, NNP, and per capita NNP are increasing. FDI flows to India show a sharp rise after 1990s and emerge as an import tool of global integration. India is in the position of increasing its trade position by expanding its trade relations. The performance of export sector is improving continuously. In contrast import is also increasing due to oil import. Globalization promotes competition, efficiency and productivity, cost effectiveness, technological up gradation, modernization and growth in the Indian economy. Globalization package comprises devaluation, deregulation, deflation, denationalization, desensitization, in short globalization is used to mean a more liberal “outward oriented” policies.

There are two major concerns about globalization. First is globalization leads to a more unequal distribution of income among countries and within countries and the second is to create the fear of loss of national sovereignty and the difficulty to follow independent domestic policies. However, in the name of risk of an open economy it is not justifiable to miss the opportunities that the global systems offers and India is in the position to take significant gains from globalization.

In the context of North eastern we can conclude that rejuvenating the economy of Northeast in the context of liberalization requires a multi-dimensional approach in an integrated manner. The most important initiatives should include revolutionary changes in economic and social priorities and planning. Development of socio economic infrastructure, fuller utilization of natural resources, development of entrepreneurial culture and above all extending transnational ties will determine the future of north east in the near future.

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TABLES, CHARTS AND FIGURES:



Chart 1

Table-I Increase in Foreign Trade

Sr. No	Year	Export % GDP	Import % GDP
1	2	3	4
2	1970-71	3.4	4.0
3	1980-81	4.7	8.7
4	1990-91	5.7*	7.4*
5	2000-01	9.5	10.8
6	2003-04	10.4	12.13
7	2006-07	13.9*	21.1*

Source:- Handbook of statistics an Indian economy.2006-07.

Table-II Globalization of Capital in 1980-2007

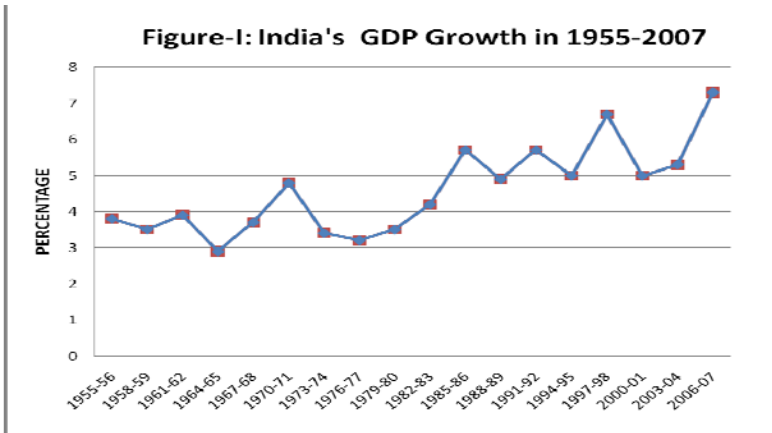
Sr No	Year	Authorizat ion (crore)	Utilization (crore)	Foreign exchanges reserve(cr)	Import covers reserves (in months)
1	2	3	4	5	6
2	1980-81	3847	2162	4822	5
3	1990-91	8123	6704	4388	2.7
4	2000-01	18,125	14,254	1,84,482	8.8
5	2006-07	31,723	19,288	8,36,597	12.4

Source:-Hand book of Statistics on Indian economy 2006-07.

Table-III: Medium-term Growth Expectations-1992-2012

Particulars	1992-93 – 2005-06	2002-03- 2006-07	2007/8 - 2011 /12	
			“Optimist”	“Pessimist”
GDP %	6.4	7.2 *	8 – 10	6.5 – 7.0
GDP per capita %	4.4	5.5	6.5	5 – 5.5

* Assuming Reserve Bank projection of 8.0 percent GDP growth for 2006-07



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