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OBJECTIVES
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IMPACT OF FINANCIAL GLOBALIZATION ON REAL SECTOR INDICATORS OF INDIAN ECONOMY: AN EMPIRICAL STUDY

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ABSTRACT

There were various forces which fostered globalization of finance throughout the world during the last three decades. And in India, it is the 1991 currency crisis and consequently the implementation of structural adjustments prescribed by International Monetary Fund (IMF) that led to liberalization of capital accounts of the country. Financial globalization not only significantly improved cross border movements of capital but also it has increased the volume of investments in different sectors of developing and emerging economies. But, now after two and a half decades of financial globalization in Indian economy, the big question is whether it has favorably influenced the real sector or not. In order to explore the impact of financial globalization on Indian economy, we have selected a few indicators of real sector and implemented paired two-sample Student's t-Test. It is a 'Before-After' approach that has been followed in the present study while testing the hypotheses. The findings of the study show that there is a significant improvement in positions of selected real sector indicators of Indian economy during the post globalization era.

KEYWORDS

Indian economy, financial globalization, 1991 currency crisis, paired two-sample student's t-test.

JEL CODES

E02, F6, F4, F43.

1. INTRODUCTION

The concept of financial globalization is older than thousand years in the sense that a large proportion of developing world being under the rule of today's developed countries witnessed huge capital outflows from their mother land for centuries. For hundreds of year, countries like Spain, Portugal, France, England, Japan etc. dominated the world geography by following the process of colonization. They not only forcibly implemented their central system of power in the acquired colonies but also deliberately accumulated and transferred maximum possible resources from here to them. Revenues collected from taxes and trade in colonies created all over the world were ultimately getting invested in a few ruling countries and this process of cross border capital flows started coming to an end a few decades back only when the World War II started. The volume of international capital flows a hundred years back is comparable to even the level of today (Schmukler, 2004). But in terms of depth and breath, it has become deeper and wider since gone are the days when capital flow was happening to be a one way affaire i.e. from colonial countries to the developed world. With the advent of World War I this practice of moving capital got its first blow and when the Bretten Woods Era started after World War II, cross border capital flows started declining significantly to reach an all time low during 1950s and 1960s (Baldwin & Martin, 1999). The Bretten Woods Era was characterized not only by rigid monetary and exchange rate policies but also by limited capital mobility. A modern era in international financial system started only after the fall of Bretten Woods system during early 1970s (Mundell, 2000) and this was the time when developing and emerging countries chose to globalize. It took almost two decades to fully accept globalization as a part of economic policy for the developing world. Some countries adopted globalization as prevention (like China) while others accepted it as a cure to all economic woos (like India). Today, globalization of finance has become the hallmark of economic success stories of emerging economies including China, Singapore, Malaysia, South Korea etc. The rise of financially liberated economic superpowers especially during the past three decades has proved that financial globalization has a significant impact on indicators of economic development. Financial Globalization is getting advocated for having a favorable influence on the economy and also the society (Singh, 2011). India started liberalizing only after it faced a currency crisis in 1991. As part of structural adjustments prescribed jointly by International Monetary Fund (IMF) and The World Bank (WB), India introduced the New Economy Policy (NEP) of 1991. It brought into existence a lot of reforms in the domestic ground as well as external sector. The individual elements in the reform package in NEP of 1991 can be summarized as follows: fiscal stabilization, industrial policy and foreign investments, trade and exchange rate policy, tax reform, public sector policy, agricultural sector reforms, labor market reforms, financial sector reforms (Ahluwalia, 1993). The globalization of finance in India has been carried out along with a series of financial sector reforms during the past twenty five years. Now the question is whether financial globalization has favorably influenced the country at a macroeconomic level or not and the present study is an attempt to answer this question on the basis of empirical evidences.

2. REVIEW OF LITERATURE

Globalization means many things including movement of goods, services and capital at an increased speed and ease (Clift & Diehl, 2007). And in an era of globalization many decisions taken nationally in the domestic ground is getting transmitted to international arena. It is because of a growth in integration of developing and emerging economies with the developed and industrialized countries. It happened not only because of increased level of international trade caused by current account liberalization but also due to cross border capital flows influenced largely by capital account liberalization along with a series of financial sector reforms in developing and emerging economies (Turner, 2008). However, it is 1980s onwards only that the emerging economies of today started realizing the importance of foreign capital for economic development and hardly anyone could have predicted the volume and scale of international capital flows at that time. There has been a severe explosion in gross cross border flows of capital since 1980s and the concept of emerging economies became popular. It is true that the developing and emerging economies have shown faster growth rates than even the developed nations during last three decades. But, whether financial globalization has contributed to the up gradation of real economy is still a question since there have been a rising evidence of income inequalities in these countries (Torres, 2008). It was after the 1991 currency crisis and the felt need for accelerating economic growth in the economy that India started liberalizing (Shah & Patnaik, 2011). Earlier it was believed that inflows and outflows of capital are dangerous and if inflows are to be permitted it should be from certain types of investors. But after the introduction of structural adjustment as condition of IMF funds after 1991, it became mandatory for the country to rethink about its stand on foreign capital. The Indian financial sector got liberalized, though gradually in a phased manner. And after two and a half decades of globalization, it is the time to evaluate its microeconomic and macroeconomic consequences. Keeping it in their mind, many researchers in India and abroad have attempted to assess the impact of globalization in general and financial globalization in specific on Indian economy. Somalkar (2006) conducted a study with the objective to assess the impact of globalization on Indian economy and took foreign trade and foreign direct investments as the key indicators of economic development. He studied the period from 1990-91 to 2004-05 and compared the positions of these indicators in Indian economy with those of a few selected developing countries. After a phase of descriptive analysis, he concluded that the rate at which India and China are developing, within the next ten years these two countries will supersede the USA, many European countries and even Japan in terms of economic growth and development. In the same line of research Jindal (2013) tried to understand the socio-economic effects of globalization on Indian economy. She found that globalization has made Indian economy more dependent, less self sufficient and has not favorably helped indigenous industrial sector of the country grow. Additionally, she says that globalization has completely disturbed the traditional social-cultural structure of the country. Another study conducted by Jeelani *et al.* (2013) focused on analyzing the impact of globalization on capital market of India. As per the findings of the study, the authors considered financial sector reforms, restructuring and strengthening should go side by side with financial liberalization so that the country can be protected from any type of global financial crisis. They suggested constant monitoring of the capital market while gradually increasing the degree of financial liberalization. Then Punia (2015) conducted a study by taking some specific sector like agriculture, education, technology etc. and assessing the impact of globalization on them. She found that globalization has favorably affected agriculture sector and made the lives of people in India more comfortable also. But she also stated her concern over the rising levels of poverty and corruption after globalization. Hence, from the review of extant literature we may conclude that globalization has perceived to have mixed results in Indian economy. Now the research question is whether it has actually upgraded the key development indicators of Indian economy or not.

3. NEED/IMPORTANCE OF THE STUDY
Financial globalization in developing and emerging economies is getting advocated because of its favorable effects on balance of payments positions, industrialization and economic growth rates. But at the same time public debates and opinion surveys throughout the world has illustrated the rising income inequalities in countries globalizing their finance. However, whether it is the policy of liberalization, privatization or globalization; the success of it ultimately gets reflected in the real sector indicators of the economy. And therefore it becomes appropriate here to analytically prove by use of empirical evidences whether there is any relevance of financial globalization in upgrading real sector indicators of any country or not.

4. STATEMENT OF THE PROBLEM
In order to provide analytical support to the view that financial globalization not only facilitates increased international capital flows but also lead to long term sustainable economic development of the country, empirical analyses are unquestionably the most suitable. Now, it becomes necessary to first identify the key indicators of real sector in an economy and then prove empirically that financial globalization has a favorable impact on them.

5. OBJECTIVES
The present study has been conducted with the following research objectives:
1. To identify the key indicators of real sector in Indian economy.
2. To detect empirically whether financial globalization has any significant favorable impact on the selected indicators of real sector in Indian economy or not.

6. HYPOTHESIS (ES)
From the review of extant literature, the following is the research hypothesis that has been framed in this study:
H_0: There is no significant difference in positions of selected real sector indicators of Indian economy in the pre globalization and post globalization periods.
H_1: There is significant difference in positions of selected real sector indicators of Indian economy in the pre globalization and post globalization periods.

7. RESEARCH METHODOLOGY
Here, since the analysis are supposed to be done on real sector indicators, the world development indicators database available in the official website of World Bank (i.e. www.worldbank.org) has been accessed. The World Bank provides information on around fifteen hundred development indicators starting from the year 1960. On the basis of review of extant literature, the most important real sector indicators got identified for Indian economy and data on them has been captured from world development indicators database. Then the next mandate being the selection of appropriate statistical tool, a review of literature on available statistical tools has been conducted. It has been found that since the inherent job in this study is to test a predefined hypothesis, an appropriate method of hypothesis testing would be ideal to implement. For this purpose, t-Test: Pared Two Sample for Means has been chosen. One can use a paired test when there is a natural pairing of observations in the samples, such as when a sample group is tested twice — before and after an experiment. This analysis tool and its formula perform a paired two-sample Student's t-Test to determine whether observations that are taken before a treatment and observations taken after a treatment are likely to have come from distributions with equal population means. This t-test form does not assume that the variances of both populations are equal. In this case, the treatment is implementation of globalization and we are required to study the mean value of the chosen indicators before globalization and after globalization.

8. RESULTS & DISCUSSION

The positions of real sector indicators in pre globalization periods of Indian economy has been presented in Table 8.1.

TABLE 8.1: POSITIONS OF REAL SECTOR INDICATORS: PRE GLOBALIZATION

Year	Final Consumption Ex-penditure (as % of GDP)	Gross Domestic Savings (as % of GDP)	Gross Capital Formation (as % of GDP)	Exports (as % of GDP)	Imports of (as % of GDP)	Exports/Imports	Total Reserves (Including Gold, Current US $)	GDP Growth (Annual %)	GDP (Current US $)
Pre Globalization									
1967	86.6	13.4	15.2	4.0	5.8	0.7	663764119.8	7.8	51014155360.0
1968	86.7	13.3	14.2	4.0	4.9	0.8	730352744.9	3.4	54016411986.7
1969	85.2	14.8	15.1	3.6	4.0	0.9	927764119.8	6.5	59472993626.7
1970	84.8	15.2	15.3	3.7	3.8	1.0	1023173271.4	5.2	63517182000.0
1971	83.6	16.4	16.8	3.6	3.9	0.9	1245820241.0	1.6	68532271313.2
1972	83.9	16.1	15.8	4.0	3.6	1.1	1367599034.1	-0.6	72716595884.3
1973	84.0	16.0	16.5	4.1	4.6	0.9	1629326578.8	3.3	87014945186.3
1974	82.6	17.4	18.6	4.7	5.9	0.8	2324650377.1	1.2	101271489826.2
1975	82.5	17.5	18.5	5.5	6.5	0.8	2064428261.1	9.1	100199514365.2
1976	81.3	18.7	18.1	6.6	6.0	1.1	3728750351.2	1.7	104518118776.8
1977	81.7	18.3	18.2	6.3	6.2	1.0	6085439481.9	7.3	123617837582.5
1978	80.3	19.7	20.0	6.2	6.5	1.0	8316114115.9	5.7	139708688961.6
1979	80.4	19.6	21.0	6.6	8.0	0.8	11815412878.1	-5.2	155674337010.0
1980	85.0	15.0	18.0	6.0	9.1	0.7	12009786832.0	6.7	189594121351.9
1981	80.7	19.3	21.8	5.8	8.4	0.7	8108842157.1	6.0	196883474523.3
1982	80.1	19.9	22.0	5.9	8.0	0.7	8241563483.0	3.5	204234366470.5
1983	82.0	18.0	20.0	5.7	7.7	0.7	8215728863.2	7.3	222090283347.2
1984	79.9	20.1	21.5	6.2	7.6	0.8	8535944836.0	3.8	215878233650.7
1985	78.9	21.1	23.5	5.2	7.5	0.7	9493104339.5	5.3	236589100981.3
1986	78.3	21.7	23.5	5.1	6.9	0.7	10480097372.7	4.8	253352444883.3
1987	78.7	21.3	22.6	5.5	6.9	0.8	11511739958.7	4.0	283926977522.5
1988	77.6	22.4	23.8	5.9	7.3	0.8	9185841795.8	9.6	301790951204.2
1989	77.2	22.8	23.9	6.9	8.0	0.9	8048453590.0	5.9	301233728792.8
1990	76.5	23.5	24.9	6.9	8.3	0.8	5637446977.0	5.5	326608014285.3
Mean=	81.6	18.4	19.5	5.3	6.5	0.8	5891297740.8	4.6	163060676620.5

Source: World Bank Indicators Database

The variables used in the present study as real sector indicators has been selected after a careful scrutiny and on the basis of their relative importance in real economy. Table 8.3 in the Appendix/Annexure section describes the name of eight variables selected in the study out of around fifteen hundred variables available in world development indicators database. The relative importance of these variables has been determined on the basis of review of extant literature.

TABLE 8.2: POSITIONS OF REAL SECTOR INDICATORS: POST GLOBALIZATION

Year	Final Consumption Expenditure (as % of GDP)	Gross Domestic Savings (as % of GDP)	Gross Capital Formation (as % of GDP)	Exports (as % of GDP)	Imports of (as % of GDP)	Exports/Imports	Total Reserves (Including Gold, Current US $)	GDP Growth (Annual %)	GDP (Current US $)
Post Globalization:									
1991	77.5	22.5	22.5	8.3	8.3	1.0	7615987442.9	1.1	274842161318.3
1992	76.5	23.5	24.2	8.7	9.4	0.9	9538784914.7	5.5	293262722482.4
1993	78.7	21.3	21.3	9.7	9.6	1.0	14674627526.9	4.8	284194018792.1
1994	77.1	22.9	23.2	9.7	10.0	1.0	24220928978.0	6.7	333014993709.7
1995	75.1	24.9	26.1	10.7	11.8	0.9	22864638482.8	7.6	366600193391.3
1996	79.1	20.9	22.1	10.2	11.3	0.9	24889366112.6	7.5	399787263892.6
1997	76.7	23.3	24.5	10.5	11.7	0.9	28385372704.0	4.0	423160799040.9
1998	78.1	21.9	23.5	10.8	12.5	0.9	30646565204.5	6.2	428740690380.0
1999	75.1	24.9	26.8	11.3	13.1	0.9	36005294869.4	8.8	466866720521.0
2000	76.8	23.2	24.1	12.8	13.7	0.9	41059062637.8	3.8	476609148165.2
2001	75.3	24.7	25.6	12.3	13.2	0.9	49050841243.2	4.8	493954161367.6
2002	76.0	24.0	25.0	14.0	15.0	0.9	71607863519.1	3.8	523968381476.7
2003	74.5	25.5	26.1	14.7	15.4	1.0	103737207867.3	7.9	618356467437.0
2004	69.3	30.7	32.5	17.6	19.3	0.9	131631145663.0	7.9	721584805204.8
2005	68.5	31.5	34.3	19.3	22.0	0.9	137824831019.0	9.3	834214699568.1
2006	67.3	32.7	35.9	21.1	24.2	0.9	178049789377.4	9.3	949116769619.2
2007	66.0	34.0	38.0	20.4	24.4	0.8	276578100623.7	8.6	1238699170079.0
2008	69.5	30.5	35.5	23.6	28.7	0.8	257422725838.4	3.9	1224097069459.7
2009	69.1	30.9	36.3	20.0	25.4	0.8	284682885686.3	8.5	1365371474048.2
2010	67.8	32.2	36.5	22.0	26.3	0.8	300480145803.6	10.3	1708458876829.9
2011	67.0	33.0	39.6	24.5	31.1	0.8	298739485811.4	6.6	1815865716201.6
2012	68.5	31.5	38.3	24.5	31.2	0.8	300425518088.1	5.6	1824960308640.7
2013	68.3	31.7	34.7	25.3	28.3	0.9	298092483487.5	6.6	1863208343557.8
2014	68.9	31.1	34.1	22.9	25.9	0.9	325081060905.9	7.2	2042438591344.0
Mean=	72.8	27.2	29.6	16.0	18.4	0.9	135554363075.3	6.5	873807231105.3
t Stat=	13.2	-13.2	-12.6	-9.9	-8.8	-2.1	-5.4	-2.3	-6.8
p Val.=	0.0*	0.0*	0.0*	0.0*	0.0*	0.1	0.0*	0.0*	0.0*

Source: World Bank Indicators Database

'*' = Null Hypothesis Rejected

The positions of real sector indicators in post globalization periods of Indian economy has been presented in Table 8.2. Additionally, the calculated 't' values and 'p' values for each of the indicators has also been given in the table. As per the results since the 'p' value for all the indicators except one (i.e. Exports/Imports) are less than 0.05, it can be said that null hypothesis that there is no significant difference in positions of selected real sector indicators of Indian economy in the pre globalization and post globalization periods has been rejected in all the cases.

9. FINDINGS

As per the results found in the study, it can be concluded that in all the cases except one i.e. Exports/Imports the null hypothesis is rejected. It means that the exports and imports increased significantly in the post globalization periods and since both of it have risen in almost in same proportions; change in their ratio has become insignificant. It is a very good sign that the consumption expenditure in the country has declined significantly while domestic savings has increased significantly in the post globalization periods. Apart from this, it has also been seen that gross capital formation and total reserves of the country has risen significantly in the post globalization period. Finally, it has been proved that volume of Gross Domestic Product (GDP) has also increased significantly after globalization. The findings of the present study are similar to the findings of Deol (2005) on Indian economy. He has proved in his study that India has achieved remarkable macroeconomic performance after implementation of IMF structural adjustment programs in 1991. And in the present study also it has been discovered and statistically verified that the selected real sector indicators of Indian economy have improved after globalization of finance caused by implementation of IMF programs in 1991.

10. RECOMMENDATIONS/SUGGESTIONS

Further to the discussions on findings of the study, the first policy implication is that financial globalization has unquestionably upgraded the position of real economy of India. Secondly, if globalization of finance can be considered as an event, had it happened earlier, the real sector development would have happened earlier. Thirdly, it is not only sufficient to achieve a remarkable position in terms of indicators of economic development, rather it is more important to consistently achieve the same or better positions in future also.

11. CONCLUSIONS

Due to globalization of finance, the dependency of Indian economy on foreign capital has no doubt increased. But the improvement in the indicators of economic development is a favorable sign for the country. This is perhaps the benefit of globalization that India could reap after long years of reforms in its economy.

12. LIMITATIONS

There are a few limitations of this study which are noteworthy here. First, the present study is based on a few selected indicators of real sector only. These indicators may be argued not to be representing the whole of the Indian economy. Second, the interpretations of results in this study have been done through tests of hypotheses. Testing of hypothesis only detects significant differences between samples and not the actual magnitude of difference. Third, the study did not make cross country comparison of impact of financial globalization.

13. SCOPE FOR FURTHER RESEARCH

In order to increase the relevance of this study, more number of variables can be taken into consideration in future researches. Secondly, here it has already been detected that there is a significant impact of financial globalization on real economy of India. Future researches may focus on measuring the magnitude of impact of financial globalization on real economy. Thirdly, cross country comparison can also be done in future studies.

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APPENDIX/ANNEXURE

Table 8.3: DESCRIPTION ABOUT SELECTED INDICATORS

Sl. No.	Name of the Variable	Description
1	Final Consumption Expenditure (as % of GDP)	Final consumption expenditure (formerly total consumption) is the sum of household final consumption expenditure (private consumption) and general government final consumption expenditure (general government consumption). This estimate includes any statistical discrepancy in the use of resources relative to the supply of resources.
2	Gross Domestic Savings (as % of GDP)	Gross domestic savings are calculated as GDP less final consumption expenditure (total consumption).
3	Gross Capital Formation (as % of GDP)	Gross capital formation (formerly gross domestic investment) consists of outlays on additions to the fixed assets of the economy plus net changes in the level of inventories. Fixed assets include land improvements (fences, ditches, drains, and so on); plant, machinery, and equipment purchases; and the construction of roads, railways, and the like, including schools, offices, hospitals, private residential dwellings, and commercial and industrial buildings. Inventories are stocks of goods held by firms to meet temporary or unexpected fluctuations in production or sales, and "work in progress." According to the 1993 SNA, net acquisitions of valuables are also considered capital formation.
4	Exports (as % of GDP)	Exports of goods and services represent the value of all goods and other market services provided to the rest of the world. They include the value of merchandise, freight, insurance, transport, travel, royalties, license fees, and other services, such as communication, construction, financial, information, business, personal, and government services. They exclude compensation of employees and investment income (formerly called factor services) and transfer payments.
5	Imports of (as % of GDP)	Imports of goods and services represent the value of all goods and other market services received from the rest of the world. They include the value of merchandise, freight, insurance, transport, travel, royalties, license fees, and other services, such as communication, construction, financial, information, business, personal, and government services. They exclude compensation of employees and investment income (formerly called factor services) and transfer payments.
6	Exports/Imports	Total Exports of goods and services divided by Total Imports of goods and services
7	Total Reserves (Including Gold, Current US $)	Total reserves comprise holdings of monetary gold, special drawing rights, reserves of IMF members held by the IMF, and holdings of foreign exchange under the control of monetary authorities. The gold component of these reserves is valued at year-end (December 31) London prices. Data are in current U.S. dollars.
8	GDP growth (annual %)	Annual percentage growth rate of GDP at market prices based on constant local currency. Aggregates are based on constant 2010 U.S. dollars. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources.
9	GDP (Current US $)	Total amount of goods and services produced in a year in terms of current U.S. dollars.

Source: World Bank Indicators Database

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