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**Abhash Kumar**  
Assistant Professor  
Department of Economics,  
Rajdhani College, University  
of Delhi.

## Globalization and Economic Relations in India and South Korea: An Argument

**Abhash Kumar**

### 1. Introduction

**Globalization** can be defined as a process of rapid economic, cultural and institutional integration among countries driven by liberalization of trade, investment and capital flow and technological advances. Globalization has reduced barriers between countries, thereby resulting in intensification of competition among nations, dissemination of advance management practices, rapid mobility of capital and newer form of work organization. Because of its profound consequences it has been the object of much praise and strident criticism. The supporters of globalization regard it as a wholly benign process heralding the long awaited deliverance of humanity from economic backwardness, underdevelopment and misery. On the other hand critics of globalization mounted a powerful attack holding it to be malign force which may result into Destabilization, Deindustrialization and Denationalization.

To discuss the issue I have taken the reference of two emerging economies from Asia-India and South Korea. The choice of these two countries was made because of their high level of exposure to globalization and their levels of economic and industrial development. The argument in this paper is that globalization affects emerging countries in both positive and negative ways. On the one hand it leads to increased economic development and improving economic indicators while on the other increased exposure to the global economy exposes it to various risks as well.

### 1.1. India

The Republic of India with a population of just over a billion is the second most populous country in the world after China. It has a population growth rate of 1.4% and literacy rate of 70%. Like most of the countries with colonial origin, India based most of its laws on the colonial structure left by the British. Globalization is essentially an economic phenomenon which has strong implications. To understand the effect of globalization on Indian economy, society, culture, religion and psyche, it is essential for us to know how and when economic reforms were carried out.

The 1991 Gulf war had aggravated the international oil prices, which seriously affected India's BoP (Balance of Payments) situation. Exports were low and imports were high (due to high price of oil and petroleum). India's economic performance was also suffering because industrial production had plunged to the ground. Fiscal deficit had soared up to new heights, which earned nothing except high rates of inflation. Due to the populist forms of government spending in the 1980s, supported by huge borrowings without sufficient return, India's internal and external debt touched the sky.

Short term commercial borrowings from abroad led to a difficult situation for the government. India virtually came to the brink of default. Under this situation, the Government borrowed a huge sum of conditional loan' from the IMF. Thus, India became obliged to follow IMF prescribed' structural reforms'.

The IMF package consisted of a set of economic policies for a debt-ridden and low performing economy, for the short run which are called 'stabilization measures', and which includes:

1. Monetary policies
  - a. Positive real interest rates
  - b. Increase in reserve rate

**Correspondence**  
**Abhash Kumar**  
Assistant Professor  
Department of Economics,  
Rajdhani College, University  
of Delhi.

- c. More vigorous open market operations
- d. Credit controls
1. Realignment of the exchange rate to a near market determined rate.
2. Reduction of budgetary deficits
  - a. Increased revenue mobilization efforts
  - b. Review of public investment priorities and identification of a core programme of investment.
3. Real wage restraint
  - a. Removal of formal indexation arrangements

### 1.2. The Long Term 'Structural Reforms' prescribed by IMF include

1. Promotion of private sector (domestic-and foreign)
  - a. Definitive political commitment
  - b. Rapid improvement in infrastructure
  - c. Improvement in regulatory regimes
  - d. Facilitation of investment approval procedures
2. Commercialization of public enterprises-improvement in operational efficiency
  - a. Privatization programmes
3. Financial sectors reforms
  - a. Movement to market determined rates capital market development, including promotion of stock exchanges
4. Liberalization of trade regime
  - a. Removal of import and exchange control and progress towards lower and less-dispersed band of tariffs.
5. Price-flexibility
6. Tax-reforms
  - a. Reduction of distortion effects on resource allocation
  - b. increased elasticity of tax-system
7. Administrative reforms
  - a. Reduction in size of public service
  - b. Safety net well targeted programmes of transfers to vulnerable groups.
- c. Training, credit and employment programmes for vulnerable group. Impact of Globalization on Indian Economy

### 1.3. Where India Stands Now

There is a need to remember where India was at the time of its independence. Power capacity was just 1.1 per cent of what it is now. With high mortality rates, the average Indian died at

age 32. More than half of the country was under the poverty line. As opposed to it the income of an average household is now nearly Rs.130, 000. Poverty was down to 23-26 per cent in 1999-2000. Per capita growth has gone up from about 1.5 per cent per year in the first 30 years after independence to about 6.4 per cent per year now. This has made a palpable difference in the standard of living of the people.

The step-up in the growth rate of the economy has been facilitated by increase in domestic investment to over 30 per cent of GDP, financed predominantly by domestic savings. Domestic savings increased to over 29 per cent of GDP by 2004-05 after some stagnation in the second half of the 1990s. The improvement in overall savings in recent years has particularly benefited from the turnaround in public sector savings. After turning negative between 1998-99 and 2002-03 owing to sharp deterioration in the savings of Government administration, public sector savings have turned positive again from 2003-04 onwards, mainly reflecting the ongoing fiscal consolidation. In 2004-05, the public sector savings rate was 2.2 per cent, but it was still less than a half of the peak of almost five per cent touched in 1976-77.

Improvement in corporate profitability since 2002-03 has also contributed to increase in domestic savings in the recent years. Household savings remain the predominant component of domestic savings, contributing almost three- fourths of overall domestic savings in 2004-05. For the Indian economy to achieve higher growth on a sustained basis further improvement in overall savings is necessary and, in this context, public sector savings will have to play a significant role. The foreign exchange reserves (as at the end of the financial year) were \$39 billion (2000-01), \$ 107 billion (2003-04), \$145 billion (2005-06), \$180 billion (in 2007) and \$300 billion (in 2010-11).

The cumulative FDI inflows from 1991 to September 2006 were Rs.1, 81,566 crores (US \$43.29 billion). In the year 2010-11 it was alone Rs.30380 crores. The sectors attracting highest FDI inflows are electrical equipments including computer software and electronics (18 per cent), service sector (13 per cent), telecommunications (10 per cent), transportation industry (nine per cent), etc. In the inflow of FDI, India controls at the present 45 per cent of the global outsourcing market with an estimated income of \$ 50 billion.

Table : Foreign Investment Inflows

Year	A. Direct investment		B. Portfolio investment	
	` crore	US \$ million	` crore	US \$ million
1	2	3	4	5
1992-93	965	315	748	244
1993-94	1838	586	11188	3567
1994-95	4126	1314	12007	3824
1995-96	7172	2144	9192	2748
1996-97	10015	2821	11758	3312
1997-98	13220	3557	6794	1828
1998-99	10358	2462	-257	-61
1999-00	9338	2155	13112	3026
2000-01	18406	4029	12609	2760
2001-02	29235	6130	9639	2021
2002-03	24367	5035	4738	979
2003-04	19860	4322	52279	11377
2004-05	27188	6051	41854	9315
2005-06	39674	8961	55307	12492
2006-07	103367	22826	31713	7003
2007-08	140180	34835	109741	27271
2008-09	173741	37838	-63618	-13855
2009-10	179059	37763	153516	32376
2010-11	138462	30380	143435	31471

## Source-RBI

As per the Forbes list for 2007, the number of billionaires of India has risen to 40 (from 36 last year) more than those of Japan (24), China (17), France (14) and Italy (14) this year. A press report was jubilant: The combined wealth of the Indian billionaires marked an increase of 60 per cent from \$ 106 billion in 2006 to \$ 170 billion in 2007. The 40 Indian billionaires have assets worth about Rs. 7.50 lakh crores whereas the cumulative investment in the 91 Public Sector Undertakings by the Central Government of India is Rs. 3.93 lakh crores only.

But on the flip side, the foremost casualty has been the agriculture sector. ***Agriculture has been and still remains the backbone of the Indian economy.*** It plays a vital role not only in providing food and nutrition to the people, but also in the supply of raw material to industries and to export trade. In 1951, agriculture provided employment to 72 per cent of the population and contributed 59 per cent of the gross domestic product. However, by 2001 the population depending upon agriculture came to 58 per cent whereas the share of agriculture in the GDP went down drastically to 24 per cent and further to 16 per cent in 2010-11. This has resulted in a drastic lowering of the per capita income of the farmers and has increased rural indebtedness.

The agricultural growth of 3.2 per cent observed from 1980 to 1997 decelerated to two per cent subsequently. The Approach to the Eleventh Five Year Plan released in December 2006 stated that the growth rate of agricultural GDP including forestry and fishing is likely to be below two per cent in the Tenth Plan period.

The reasons for the deceleration of the growth of agriculture are given in the Economic Survey 2006-07: Low investment, imbalance in fertilizer use, low seeds replacement rate, a distorted incentive system and low post-harvest value addition continued to be a drag on the sectors performance. With more than half the population directly depending on this sector, low agricultural growth has serious implications for the inclusiveness of growth.

The proportion of the unemployed to the total labor force has been increasing from 2.62 per cent (1993-94) to 2.78 per cent (1999-2000) and 3.06 per cent (2004-05). In absolute figures, the number of unemployed had been in those years 9.02 million, 10.51 million and 13.10 million respectively. (Economic Survey 2006-07, Table 10.4)

About the quality of education given to children, the Approach to the Eleventh Five Year Plan stated: A recent study has found that 38 per cent of the children who have completed four years of schooling cannot read a small paragraph with short sentences meant to be read by a student of Class II. About 55 per cent of such children cannot divide a three digit number by a one digit number. These are indicators of serious learning problems which must be addressed.

The Approach paper added further that: Universalization of education will not suffice in the knowledge economy. A person with a mere eight years of schooling will be as disadvantaged in a knowledge economy by ICT as an illiterate person in modern industry and services.

The less said about the achievements in health the better. The Approach to the Eleventh Plan concedes that progress implementing the objectives of health have been slow. The Report gave the particulars of the **rates of infant mortality (per 1000 live births) for India as 60 against Sri Lanka (13), China (30) and Vietnam (19). The rate of maternal mortality (per 1, 00,000 deliveries) of India is 407 against Sri Lanka (92), China (56) and Vietnam (130).**

***About the impact of globalization, in particular on the development of India, the ILO Report (2004) has very succinctly stated: In India, there had been winners and losers. The lives of the educated and the rich had been enriched by globalization. The information technology (IT) sector was a particular beneficiary. But the benefits had not yet reached the majority, and new risks had cropped up for the losers the socially deprived and the rural poor. Significant numbers of non-perennial poor, who had worked hard to escape poverty, were finding their gains reversed. Power was shifting from elected local institutions to unaccountable trans-national bodies. Western perceptions, which dominated the globe media, were not aligned with local perspectives; they encouraged consumerism in the midst of extreme poverty and posed a threat to cultural and linguistic diversity.***

#### 1.4. South Korea

The Republic of South Korea (hereafter Korea) has a population of 45 million; by the late 1990's almost 80 % was urban, an increase from only 30% in 1962 (Bamber, 2001). Korea's population is one of the most ethnically and linguistically homogenous in the world. Except for a small Chinese community (about 20,000), virtually all Koreans share a common cultural and linguistic heritage. With 48.7 million people inhabiting an area roughly the size of Indiana, South Korea has one of the world's highest population densities. Major population centers are located in the northwest, southeast, and in the plains south of the Seoul-Incheon area.

#### 1.5. Economic Profile

South Korea's economy achieved incredible growth from the 1960s to the 1990s. In the 1960s, its GDP per capita was one of the lowest in the world, but in 1996, South Korea joined the Organization of Economic Co-operation and Development (OECD) and is currently a member of the top 20 largest economies. South Korea's remarkable economic growth was led by the government-driven economic growth model with a closed domestic market, directed credit supply and strict import restrictions. The government established five-year economic development plans and increased imports of raw materials and technology for domestic industry. It also encouraged domestic saving rather than consumption. In 1997, however, South Korea's growth sharply moderated due to the Asian Financial Crisis, which showed the risks of South Korea's economic model such as its short-term vulnerability and high dependence on large conglomerates. Due to its high short-term external debt and low foreign exchange reserves, South Korea needed to ask for financial support from the IMF, and its economy plummeted by 5.7% in 1998. However, South Korea's economy strongly recovered and expanded 10.7% in 1999 and 8.8% in 2000 with IMF support and government financial reforms, improving the stability of the market.

Annual GDP growth, however, eased to around 4-5% from 2003-07 as the government switched its economic model to market-oriented from the government-driven model. With government stimulus aimed at domestic consumption, growth accelerated to 7% in 2002, but due to domestic over-consumption and a high debt ratio in the household sector, growth weakened to 2.8% in 2003. Nevertheless, strong external shipments maintained growth at around 4% in the mid-2000s.

In 2009, South Korea was ranked as the 15<sup>th</sup> largest economy in the world by nominal GDP and 12<sup>th</sup> by PPP. Given that Morgan Stanley Capital International (MSCI) passed on upgrading South Korea in 2010, it remains a high-income

developed nation with an "emerging economy." South Korea's major trading partners include China, the U.S. and Japan. The country's monetary policy, through open market operations, is primarily conducted by the Bank of Korea (BoK) which sets the base interest rate every month. Changes in interest rate tend to influence investment, consumption and, subsequently, inflation.

### 1.6. Crisis and Subsequent Reforms

Since 1997 South Korea has been on an economic and political roller coaster. Between 1997 and 1998 forecasts of annual economic growth swung from +7 percent to -7 percent, and the country elected Kim Dae-Jung, former dissident, future Nobel Peace Prize winner (and University of Cambridge honoree), and avowed economic reformer, president. However President Kim's weak electoral position—he was with only a plurality of support and forced to form a governing coalition with an ideologically dissimilar conservative party—and the continuing regional nature of South Korean politics have impeded the formation of a stable political coalition in favor of reform.

Things changed quickly in 1997 with the Asian Financial crisis. After several other Asian currencies were attacked by speculators, the Korean Won started to heavily depreciate in October 1997. The problem was exacerbated by the problem of non-performing loans at many of Korea's merchant banks. By December 1997, the IMF had approved a USD \$21 billion loan that would be part of a USD \$58.4 billion bailout plan. By January 1998, the government had shut down a third of Korea's merchant banks. Throughout 1998, Korea's economy would continue to shrink quarterly at an average rate of -6.65%. American company General Motors managed to purchase the motors division. Indian conglomerate Tata group purchased the trucks and heavy vehicles division of Daewoo.

Actions by the South Korean government and debt swaps by international lenders contained the country's financial problems. Much of South Korea's recovery from the Asian Financial Crisis can be attributed to labor adjustments (i.e. a dynamic and productive labor market with flexible wage rates) and alternative funding sources. By the first quarter of 1999, GDP growth had risen to 5.4%, and strong growth thereafter combined with deflationary pressure on the currency lead to a yearly growth of 10.5%. In December 1999, President Kim Dae-Jung declared the currency crisis over.

### 1.7. Revival and Growth Story

After the bounce back from the crisis of the late nineties, the economy continued strong growth in 2000 with a GDP growth of 9.08%. Growth fell back to 3.8% in the early 2000s because of the slowing global economy, falling exports, and the perception that corporate and financial reforms had stalled<sup>[31]</sup> Thanks to industrialization GDP per hour worked (labor output) more than tripled from US\$2.80 in 1963 to US\$10.00 in 1989. More recently, the economy stabilized and has maintained a growth rate between 4-5% from 2003 onwards.

Like most industrialized economies, Korea suffered significant setbacks during the late-2000s recession that began in 2007. Growth fell by 3.4% in the fourth quarter of 2008 from the previous quarter, the first negative quarterly growth in 10 years, with year on year quarterly growth continuing to be negative into 2009. Most sectors of the economy reported declines, with manufacturing dropping 25.6% as of January 2009, and consumer goods sales dropping 3.1%. Exports in autos and semiconductors, two critical pillars of the economy, shrank 55.9% and 46.9% respectively, while exports overall fell by a

record 33.8% in January, and 18.3% in February 2009 year on year. As in the 1997 crisis, Korea's currency also experienced massive fluctuations, declining by 34% against the dollar. Annual growth in the economy slowed to 2.3% in 2008, and was expected to drop to as low as -4.5% by Goldman Sachs, but South Korea was able to limit the downturn to a near standstill at 0.2% in 2009.

Despite the global financial crisis, the South Korean economy, helped by timely stimulus measures and strong domestic consumption of products that compensated for a drop in export was able to avoid a recession unlike most industrialized economies, posting positive economic growth for two consecutive years of the crisis. In 2010, South Korea made a strong economic rebound with a growth rate of 6.1%, signaling a return of the economy to pre-crisis levels. South Korea's export has recorded \$424 billion in the first eleven months of the year 2010 already higher than its export in the whole year of 2008.

### 1.8. Socio-Economic Development

South Korea's rapid industrialization process, from the mid-1960s onward, was coupled with a fairly equitable distribution of income. The country's extraordinary growth trajectory came to a halt when the financial crisis that struck the country in 1997 developed into an economic crisis. Even though the immediate crisis was quickly overcome, job security has declined significantly since. In 2007, temporary workers accounted for 28% of the total workforce, around double the OECD average. In fact, the ROK exhibits the second-highest share of temporary workers (behind Spain) among OECD countries. Temporary employees' incomes average just 60% of permanent employees' salaries.

Though income disparities in South Korea are still lower than in many other developing and newly developed countries, their recent rise – the Gini coefficient for household income rose from 0.296 in 1996 to 0.352 in 2007 – threatens the equitable development pattern that has been a hallmark of Korea's economic "miracle." In principle there is no discrimination on the basis of race, religion, gender, age or ethnicity. In reality, migrant workers, handicapped persons, refugees from North Korea, women and young professionals face difficulties in terms of legal protection from abuse, access to job opportunities and/or just and equal payment. The public is slowly becoming more aware of problems concerning the (mis)treatment of migrant workers. Refugees from North Korea receive initial guidance and benefits but are then basically left to their own devices. An increasing number of equal opportunity programs for women are in place. Some social indicators are presented in table below:

Social indicators		
Population growth rate (avg. annual %)	2005-2010	0.4
Urban population growth rate (avg. annual %)	2005-2010	0.6
Rural population growth rate (avg. annual %)	2005-2010	-0.9
Urban population (%)	2007	81.3
Population aged 0-14 years (%)	2009	16.8
Population aged 60+ years (women and men, % of total)	2009	17.2/13.0
Sex ratio (men per 100 women)	2009	98.1
Life expectancy at birth (women and men, years)	2005-2010	82.5/75.9
Infant mortality rate (per 1 000 live births)	2005-2010	4.4

Fertility rate, total (live births per woman)	2005-2010	1.2
Contraceptive prevalence (ages 15-49, %)	2006-2009	84.5
International migrant stock (000 and % of total population)	mid-2010	534.8/1.1
Refugees and others of concern to UNHCR	end-2008	1697
Education: Government expenditure (% of GDP)	2005-2008	4.2
Education: Primary-secondary gross enrolment ratio(w/m per 100)	2005-2008	98.9/102
Education: Female third-level students (% of total)	2005-2008	38
Seats held by women in national parliaments (%)	2009	13.7

## 2. Conclusion

In this paper, we analyzed the impact of economic reforms and human capital on the economic growth of India and South Korea in the post-reform period. Our analysis suggests that economic reforms produce a significant long-run effect on economic growth in the countries under consideration. The impact of market reforms is found to be heterogeneous across these economies. The effect is positive, significant, and sizable in South Korea, while it is negative and small in India. This result is suggestive of different degree of efficacy of reform measures implementation in two countries. The negative long-run effect of the reform factor on economic growth in India is justified by several factors, including an original hesitant approach to reform implementation, unfavourable time, specific factors (such as initial state of the economy, income distribution, demographic transition, legal system, democracy, culture and traditions etc), and the absence of a complementary effect of human capital augmented labor to market reforms.

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