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Impact of Financial Globalization on Indian Economy – A SWOT Analysis

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Abstract
Financial Globalization is an aggregate concept that refers to an individual country's linkages to global capital market. It allows a country to participate globally in financial flows. This paper has tried to bring the reality in front of the stakeholders that whether the financial globalization has uplifted the economy of the country or not, whether it has the scope to become an element to give the financial benefits to the economy or not. Whether it has become a boon or a curse to our economy. What are the strengths, weaknesses, opportunities and threats, associated with the Global Finance.
The finding shows that, though there are some weaknesses and threats but yet this concept has an eminent strength to give a lot of opportunities to a developing economy like India.

Keywords: Indian Economy, Financial Globalization, SWOT Analysis.

I. INTRODUCTION

Financial Globalization has become a hot discussion during these days. It has attracted both opponents and supporters. From their perspective, it is not a new phenomenon but today's depth and breadth are unprecedented.

Financial Globalization means the integration of domestic financial market internationally, means when one country trades with the rest of the world financially, where cross-country capital movements become very easy, where financial markets get liberalized.

Capital flows have existed for a long time but now it is being compared with the today's capital mobility. Though the developed economies are the most active participants in the process of financial globalization but the developing economies like India also have started participate and this paper focuses on the integration of the developing country India, with rest of the world.

In this paper I have tried to outline the strengths and weaknesses that financial globalization entails along with the opportunities and threats, those are associated with it.

First world war was the time when the ever first wave of this financial globalization took place, which was also followed by a period of instability and crises ultimately leading to the great depression and the second world war too.

After suffering a huge financial and economic crisis Dr. Manmohan Singh brought a new policy which is known as Liberalization, Privatization and Globalization(LPG Policy) also known as New Economic Policy, 1991.

Deregulation, privatization, and advances in technology made foreign direct investment (FDI) and equity investments in emerging markets more attractive to firms and households in developed countries. The 1990s witnessed an investment boom in FDI and portfolio flows to emerging markets.

Today, despite the perception of increasing financial globalization, the international financial system is far from being perfectly integrated. The recent deregulation of financial systems, the technological advances in financial services, and the increased diversity in the channels of financial globalization make it more costly and therefore more difficult.

But despite of these difficulties financial globalization has many benefits for a developing country on the surface, there seems to be a positive association between embracing financial globalization and the level of economic development. Industrial countries in general are more financially integrated with the global economy than developing countries.So embracing globalization is apparently part of being economically advanced. for the purpose of easy understand, we have bifurcated it in four segments and those are:

1. **Strengths**: We'll study in this segment the strengths that the global finance entails for a developing country, and those are,

a. The deeper degree of financial integration ofthe country with the international financial markets.
b. It gives the advantage of development of their financial system.
c. It liberalizes the monetary policy and capital controls. Capital controls get liberalized and hence the flow of money in market gets easy and available.
d. It reduces the cost of capital by making available the funds easily in the market.
e. After entering the global financial system in the market, FDI has got the most benefit because almost all the sectors are now become 100% liberalized, there is no limit now to invest in the domestic economy by an international investor.
f. This has resulted in new employment opportunities. Also, access to low-cost labor prompted foreign businesses to outsource work to companies operating here.
g. As it improves the living standard of the citizens by making them available a variety of products at the same or at lower price because it increases the competition in the market.
h. Resultantly, it altered their standard of living and improved the purchasing power of an average Indian. This gave birth to a new middle-class and recorded an increase in demand for consumer products in this country.
i. Abundance of skilled human resource at low-cost
j. International financial integration should, in principle, help countries to reduce macroeconomic volatility.

2. **Weaknesses:** Financial globalization also carries some risks. These risks are more likely to appear in the short run, when countries open up. One well-known risk is that globalization can be related to financial crises. Some other weaknesses are given below:
a. it is difficult for everyone to come out of their comfort zone and to work in a new environment, so it might become one of the weaknesses to work in a new environment with new competitors, and may result like a negative impact on the country in short run.
b. Liberalizing the financial policies might be a curse for the country after getting into international financial market.
c. Developed Countries might have advanced technology and a developing country like India might be deprived from this type of advancement.
d. In the short run it might not be able to match the product quality with international product quality and might lose the control over the market.
e. Outdated Labour Laws and presence of too many political, labor and trade unions.
f. Dependencies on subsidies
g. Inadequate and poor infrastructure.

3. **Opportunities:**There are many opportunities along with the weaknesses and threats some of them are given below:
a. Citizens of the nation will be able to get the products of better quality at cheaper rate due to high competition among the national and international rivals.
b. FDI will increase due to liberalizing the monetary policies and removing the controls from capital movements.
c. The level of foreign currency in the developing country will improve due to liberalizing the monetary policies and removing or minimizing the controls on capital movements.
d. International Financial market in the developing country will increase the job opportunities.
e. Per capita income and purchasing power of the national citizens will improve due to availability of more job options.

4. **Threats:** Financial Globalization gives some unexpected threats with the opportunities and strengths and those are:

a. The process of capital account liberalization has often been accompanied by increased vulnerability to financial crises.
b. Distortion of domestic market: Domestic financial market will be erupted if the international financial system will be more liberal towards the national economy.
c. Devaluation of domestic currency: Liberalizing the Indian market will devalue the Indian currency if more outflows take place.
d. Competition among the rivals will increase from national to international
e. Competition from China: China is one of thestrongestopponent of India in respect of every angle. So it has to keep in mind all the things to make itself competitive with its rivals.

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II. CONCLUSION

Like every coin has two aspects, similarly financial globalization also has a two-fold aspect. It has both positive and negative impact on the growth of the country but after analyzing the SWOT analysis, it needs a deliberate consideration on the prevailing weaknesses and threats to overcome them and to be a self sufficient economy to compete with its rival countries aggressively.

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