Macro Economic Issues and Globalization

Globalization

- The term globalization refers to the integration of economies of the world through trade and financial flows, as also through mutual exchange of technology and knowledge.
- In Indian context, globalization is opening up of the economy to foreign direct investment by providing facilities to foreign companies to invest in different fields of economic activity (removing constraints and obstacles to the entry of MNCs), allowing Indian companies to enter into foreign collaborations and also encouraging them to set up joint ventures abroad.

Strategies for Globalization

- Major measures initiated as a part of globalization strategy in the early nineties included the following:

1. ***Devaluation***
2. ***Disinvestment***
3. ***Allowing Foreign Direct Investment***
4. ***The reduction of the peak customs tariff***
5. ***Wide-ranging financial sector reforms***

Impact of Globalization on Indian Economy

- ***The Bright Side of Globalization***

a) The rate of growth of the *Gross Domestic Product* of India has been on the increase from 5.6% during 1980-90 to 9.2% during 2006-07.

b) The cumulative FDI inflows from 1991 to September 2006 were Rs.1, 81,566 crores (US $ 43.29 billion).

c) *India controls at the present 45 per cent of the global outsourcing market with an estimated income of $ 50 billion.*

d) In respect of market capitalization (which takes into account the market value of a quoted company by multiplying its current share price by the number of shares in issue), *India is in the fourth position with $ 894 billion* after the US ($ 17,000 billion), Japan ($ 4800 billion) and China ($ 1000).

- ***The Dark Side of Globalization***

a) Majority of people engaged in Agriculture

b) Growth of Unemployment/Poverty

2.62% (1993-94) to 3.06% (2004-05)

c) Increased disparity

GATT and WTO

- The General Agreement on Tariffs and Trade (**GATT**) was implemented to regulate world trade to aide in the economic recovery following the war.
- **GATT's** main objective was to reduce the barriers of international trade through the reduction of tariffs, quotas and subsidies.
- According to preamble, its **purpose** is the "substantial reduction of **tariffs** and other **trade** barriers.

- The GATT contract was first signed in 1947 by 23 countries and grew into a broad-based multilateral system covering over 90% of world trade.
- Membership in GATT grew to 128 countries, of which the majority are of course developing countries.
- The **WTO** was born out of the General Agreement on Tariffs and Trade (GATT), which was **established** in 1947.

- On January 1, 1995, the World Trade Organization was found to replace GATT after the eighth round of GATT multilateral negotiation.
- First case settled by WTO was the issue between US and several other countries in 1994.
- US government adopted a regulation imposing certain conditions on the quality of the gasoline sold in US; the purpose was to improve air quality by reducing pollution cause by gasoline.

- This action was challenged by Brazil by saying that the action of US was discrimination.
- When this issue appealed to WTO, US was told to cease its discriminatory actions against imported gasoline.
- WTO promotes the establishment of world trade liberalization and economy globalization.
- After WTO was established, the world market has experienced decline in tariff (custom duty) levels, WTO members experienced an average of 40% decline in tariff rate.

- For example, in the year of 1999, tariff rate of developed countries dropped from 6.3% to 3.9%, imported duty-free manufactured goods from increased from 20% to 43%, while high tariffs of imported manufactured goods reduced to 5%.
- Next benefit is the WTO system actually creating peace among countries.
- WTO created system that helps the trade process to go on smoothly and providing countries a constructive and fair outlet for dealing with disputes between countries over trade issues.

Difference between GATT and WTO

S. No	GATT	WTO
1	Provisional (Contracts between two parties)	Organized body
2	Had contracting parties	Has members
3	Dealt with trade in goods	Deals in services and intellectual property as well
4	Less transparency	Increased transparency due to trade policy review mechanism
5	Slow dispute settlement system	Faster and automatic dispute settlement system

Gross Domestic Product

Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

GDP = C + G + I + NX

where C is equal to all private consumption, or consumer spending, in a nation's economy, G is the sum of government spending, I is the sum of all the country's investment, including businesses capital expenditures and NX is the nation's total net exports, calculated as total exports minus total imports (NX = Exports - Imports).

Financial Markets

The financial market is any marketplace where trading of securities (equities, bonds, currencies and derivatives etc) occurs.