

Rationale for Globalization

What is Globalization?

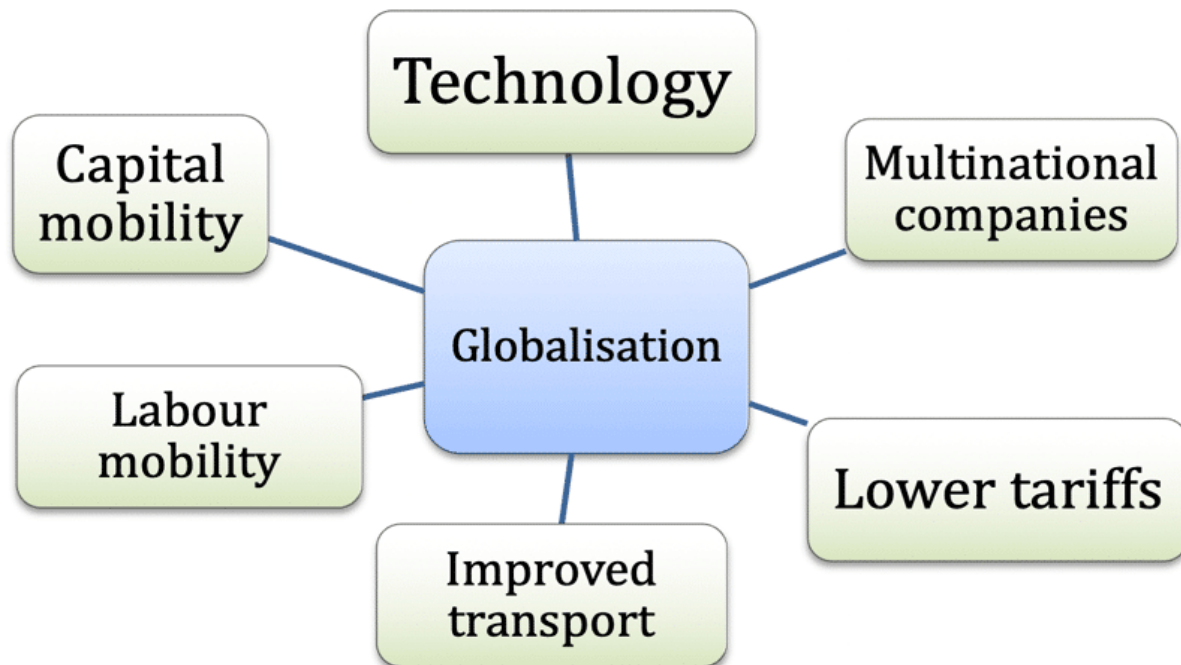
The meaning of Globalization is usually interpreted to indicate the integration of the economy of the nation with the world economy, it is a multifaceted aspect. It is a result of the collection of multiple strategies that are directed at transforming the world towards greater interdependence and integration. It includes the creation of networks and pursuits transforming social, economic and geographical barriers. Globalization tries to build links in such a way that the events in India can be determined by events happening distances away.

To put it in other words, Globalization is the method of interaction and union among people, corporations and governments universally.

What caused globalization?

Globalization is not a new phenomenon. The world economy has become increasingly interdependent for a long time. However, in recent decades the process of Globalization has accelerated; this is due to a variety of factors, but important ones include improved trade, increased labor and capital mobility and improved technology.

Main reasons that have caused Globalization



1. **Improved transport**, making global travel easier. For example, there has been a rapid growth in air travel, enabling greater movement of people and goods across the globe.
2. **Containerisation**. From 1970, there was a rapid adoption of the steel transport container. This reduced the costs of inter-modal transport, making trade cheaper and more efficient.
3. **Improved technology** which makes it easier to communicate and share information around the world. E.g. internet. For example, to work on improvements on this website, I will go to a global online community, like elance.com. There, people from any country can bid for the right to provide a service. It means that I can often find people to do a job relatively cheaply because labour costs are relatively lower in the Indian sub-continent.
4. **Growth of multinational companies** with a global presence in many different economies.
5. **Growth of global trading blocks** which have reduced national barriers. (e.g. European Union, NAFTA, ASEAN)
6. **Reduced tariff barriers** which encourage global trade. Often this has occurred through the support of the WTO.

7. **Firms exploiting gains from economies of scale** to gain increased specialization. This is an essential feature of new trade theory.
8. **Growth of global media.**
9. **Global trade cycle.** Economic growth is global in nature. This means countries are increasingly interconnected. (e.g. recession in one country affects global trade and invariably causes an economic downturn in major trading partners.)
10. **Financial system increasingly global in nature.** When US banks suffered losses due to the sub-prime mortgage crisis, it affected all major banks in other countries who had bought financial derivatives from US banks and mortgage companies.
11. **Improved mobility of capital.** In the past few decades, there has been a general reduction in capital barriers, making it easier for capital to flow between different economies. This has increased the ability for firms to receive finance. It has also increased the global interconnectedness of global financial markets.
12. **Increased mobility of labor.** People are more willing to move between different countries in search for work. Global trade remittances now play a large role in transfers from developed countries to developing countries.
13. **Internet.** This enables firms to communicate on a global level, this may overcome managerial diseconomies of scale. The firm may be able to get cheaper supplies by dealing with a wider choice of firms. Consumers are also able to order more goods online E.G. Dell Computers takes orders online and can meet customer specification.

Globalization in Indian economy

Indian society is changing drastically after urbanization and Globalization. Economic policies have had a direct influence in forming the basic framework of the economy. Economic policies established and administered by the government also performed an essential role in planning levels of savings, employment, income, and investments in society.

Cross country culture is one of the important impact of Globalization in Indian society and has significantly changed several aspects of the country including cultural, social, political, and economic. However, economic unification is the main factor that contributes maximum to a country's economy into an international economy.

Globalization and its impact on Indian Economy

Globalization (or globalization) describes a process by which regional economies, societies, and cultures have become integrated through a global network of communication, transportation, and trade. The term is sometimes used to refer specifically to economic globalization: the integration of national economies into the international economy through trade, foreign direct investment, capital flows, migration, and the spread of technology. Globalization as a spatial integration in the sphere of social relations when he said "Globalization can be defined as the intensification of worldwide social relations which link distant locations in such a way that local happenings are shaped by events occurring many miles away and vice – versa." Globalization generally means integrating economy of our nation with the world economy. The economic changes initiated have had a dramatic effect on the overall growth of the economy. It also heralded the integration of the Indian economy into the global economy. The Indian economy was in major crisis in 1991 when foreign currency reserves went down to \$1 billion. Globalization had its impact on various sectors including Agricultural, Industrial, Financial, Health sector and many others. It was only after the LPG policy i.e. Liberalization, Privatization and Globalization launched by the then Finance Minister Man Mohan Singh that India saw its development in various sectors.

Advent of New Economic Policy –

After suffering a huge financial and economic crisis Dr. Man Mohan Singh brought a new policy which is known as Liberalization, Privatization and Globalization Policy (LPG Policy) also known as New Economic Policy, 1991 as it was a measure to come out of the crisis that was going on at that time. The following measures were taken to liberalize and globalize the economy:

1. Devaluation: To solve the balance of payment problem Indian currency were devaluated by 18 to 19%.

2. Disinvestment: To make the LPG model smooth many of the public sectors were sold to the private sector.

3. Allowing Foreign Direct Investment (FDI): FDI was allowed in a wide range of sectors such as Insurance (26%), defense industries (26%) etc.

4. NRI Scheme: The facilities which were available to foreign investors were also given to NRI's.

The New Economic Policy (NEP-1991) introduced changes in the areas of trade policies, monetary & financial policies, fiscal & budgetary policies, and pricing & institutional reforms. The salient features of NEP-1991 are (i) liberalization (internal and external), (ii) extending privatization, (iii) redirecting scarce Public Sector Resources to Areas where the private sector is unlikely to enter, (iv) globalization of economy, and (v) market friendly state.

Benefits of Globalization to India

Globalization of multinational corporations have been bringing several new jobs to India's destination cities such as Hyderabad, Bangalore, etc. The benefits of Globalization to India can be summarised as follows:

- 1. Increase in employment:** New jobs are causing naturally more of engagements and employments (Mohapatra, 2007). Special Economic Zones (SEZs), Export Processing Zones (EPZs), etc. are set up across the country for which hundreds of people are hired. Since labour is cheap in India, developed western countries like USA and UK outsource their work to Indian companies. This in turn creates more employment.
- 2. Increase in compensation:** Since Globalization, the levels of compensation have been higher than what domestic firms would have provided at similar level of professional experience and qualification. According to Knowledge at Wharton (2011), mergers & acquisitions rise due to Globalization. This leads to a change in management structure. Workers are pacified with salary hikes to keep them motivated during management re-structuring.

- 3. Enhancement of living standards and increased purchasing power:** A huge amount of wealth generation in these cities have been going on which is leading to the development of businesses and cities are also developing with higher purchasing power for those who are working with foreign organizations. Even the domestic organizations are encouraged to pay higher compensation to their employees who enhance people to live better quality lives indirectly (Held, 1999). Thus these cities are witnessing better living standards and also development in business besides economic growth in the city.
- 4. Empowerment of Indian youth:** Pride of working in global organizations has been on the increase among the young professionals and that has done wonders in increasing their outstanding confidence levels even in their early 20s not seen in any other age group (Lara, 2008). This is a wide positive fact in these destination cities and this is also trickling to the young professionals in other centers of growth.

This positive phenomenon with professionalism might give further a strong motivation to the Indian economy. Growth of commercial and housing real estate industry has expanded significantly. Thus Globalization has improved the overall economic status of people as well as the Indian nation, as a whole.

Disadvantages of Globalization

Globalization has its disadvantages also.

The following are some of these disadvantages:

- (i)** Globalization paves the way for redistribution of economic power at the world level leading to domination by economically powerful nations over the poor nations.
- (ii)** Globalization usually results greater increase in imports than increase in exports leading to growing trade deficit and balance of payments problem.
- (iii)** Although Globalization promote the idea that technological change and increase in productivity would lead to more jobs and higher wages but during the last few years, such

technological changes occurring in some developing countries have resulted more loss of jobs than they have created leading to fall in employment growth rates.

(iv) Globalization has alerted the village and small scale industries and sounded death-knell to it as they cannot withstand the competition arising from well organized MNCs.

(v) Globalization has been showing down the process to poverty reduction in some developing and underdeveloped countries of the world and thereby enhances the problem of inequality.

(vi) Globalization is also posing as a threat to agriculture in developing and underdeveloped countries of the world. As with the WTO trading provisions, agricultural commodities market of poor and developing countries will be flooded farm goods from countries at a rate much lower than that indigenous farm products leading to a death-blow to many farmers.

(vii) Implementation of Globalization principle becoming harder in many industrially developed democratic countries to ask its people to bear the pains and uncertainties of structural adjustment with the hope of getting benefits in future.