

Globalization

What is Globalization

Globalization is a process of interaction and integration among the people, companies, and governments of different nations, a process driven by international trade and investment and aided by information technology.

This process has effects on the environment, on culture, on political systems, on economic development and prosperity, and on human physical well-being in societies around the world.

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- **Technology** has been the other principal driver of globalization. Advances in information technology, in particular, have **dramatically transformed economic life.**
- Information technologies have given all sorts of individual economic actors—consumers, investors, businesses—valuable new tools for identifying and pursuing **economic opportunities**,
 - including faster and more informed analyses of economic trends around the world, easy transfers of assets, and collaboration with remote partners.

GATT

- The General Agreement on Tariffs and Trade (**GATT**) was implemented to further regulate world trade to aid 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 and the elimination of preferences, on a reciprocal and mutually advantageous basis.

Cont...

- Economic prosperity and development achieved since the end of World War II, is to a large extent due to the quiet, persistent achievements of the GATT is not challengeable.
- 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.

Cont...

- The **WTO** was born out of the General Agreement on Tariffs and Trade (GATT), which was **established** in 1947. A series of trade negotiations, GATT rounds began at the end of World War II and were aimed at reducing tariffs for the facilitation of global trade on goods.
- On January 1, 1995, the World Trade Organization was found to replace GATT after the eighth round of GATT multilateral negotiation.

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- Firstly, the major weakness of the GATT was provisional arrangement. It was not an effective international contract, and it had no real enforcement mechanism.
- If the bilateral agreement broke by one of another country, GATT has nothing could be done.
- There are some rules that have been set for enforcement by GATT but it has been dysfunction due to the rule did not have the power to make other countries or parties to follow the rule or agreement set by GATT.

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- Secondly, the scope on authority of GATT was limited only in products transaction. However with development of globalization, the transactions in services and technologies, and international investments constitute a high proportion of international trade.
- Since the GATT only concentrated on the products transaction, there was a gap for GATT to regulate the transactions in services and technologies and international investments.

Cont...

- The purpose of WTO was to strengthening the GATT mechanism of settling trade disputes. Any issue that happens between nations will be bringing up to WTO to be solved.
- 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.

Cont...

- 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%.

Cont...

- 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.

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- ***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

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).*